Austria ... Sch. 22	Indonesia .. Rp 3100	Portugal .. Esc 100
Bahrain .. Din.0.650	Israel .... NS 3.50	S. Arabia .. Rls 6.00
Belgium ... BFr 48	Italy ...... L 1600	Singapore . S$ 4.10
Canada ... C$1.00	Japan Y600	Spain .... Pta 125
Cyprus ... C£0.75	Jordan ... Fils.500	Sri Lanka ... Rup 30
Denmark . DKr.9.00	Kuwait ... Fils 500	Sweden .. SKr 8.00
Egypt .... E£2.25	Lebanon . £L 60.00	Switzerland SFr 2.70
Finland .. Fmk 7.00	Luxembourg . LFr 48	Taiwan ... NT $65
France ... FFr 6.50	Malaysia .. Rm 4.25	Thailand ... Bht 50
Germany . DM 2.20	Mexico .. Pes. 300	Tunisia .. Din 0.800
Greece .... Dr 100	Morocco .. Dh 6.00	Turkey .... L 600
Hong Kong . HK$ 12	Netherlands . Fl 3.00	U.A.E. ... Dh 6.50
India Rup.-15	Norway .. Nkr. 7.00	U.S.A. $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Doubt takes root in South Africa, Page 22

World news

Former Soviet minister jailed

Soviet Supreme Court sentenced Vladimir Shushkov, former Deputy Minister of Foreign Trade, to 13 years jail for accepting bribes and confiscated his property.

Mr Shushkov is one of the most senior Soviet officials to have been arrested since the clampdown on official corruption started after the death of Soviet leader Leonid Brezhnev in 1982.

According to the Soviet news agency Tass, Mr Shushkov was found guilty of taking bribes worth 127,000 roubles ($208,000) from foreign companies which were not named. Page 2

W.German ship hit

A West German navy ship was accidentally hit by artillery shells from a Warsaw Pact vessel in the Baltic Sea and three sailors were injured, the Defence Ministry said. Page 2

Delhi near standstill

Sikh gunmen struck again in Punjab and shops and markets shut in New Delhi after weekend shootings by Sikh extremists left 14 dead and 20 wounded in the capital.

Jaffna relief deal

Sri Lanka agreed that India should send relief supplies, by unarmed ship, for Tamils in the Jaffna peninsula. Page 5

Child torture 'rises'

Police repression and abuse of children have increased under South Africa's state of emergency, with black children as young as 12 being beaten and tortured, according to the US branch of Defence for Children International, a Geneva-based human rights group.

Dikko gains time

Umaru Dikko, a former Nigerian Transport Minister who narrowly escaped being returned to Nigeria in a crate during an abortive kidnap attempt in London in 1984, was granted the right to stay in Britain for a limited period. Page 11

Bomber breaks down

US supersonic B-1B nuclear bomber, the most advanced of its type, broke down at the Paris air show. The crew could not fly it back to Texas because of a power-plant problem.

Suspects held

Paris police arrested four Italian terrorist suspects, one of them wanted after the murder of Gen Licio Giorgieri in Rome in March. Page 3

Rebels 'kill 11'

Left-wing Peruvian guerrillas stabbed to death 11 peasants after accusing them of collaborating with government forces, police said.

Asylum unlikely

West Germany is likely to turn down a request for asylum made by 14 jailed Chileans threatened with the death penalty, an Interior Ministry spokesman said.

Belfast bombing

A man who resigned from the Ulster Defence Regiment six weeks ago was killed when a bomb exploded under his car as he left work at Belfast's main post office.

Civilian rule charter

Niger's population has overwhelmingly endorsed a national charter to lead the west African nation back to some form of civilian rule under military supervision.

Cheats arrested

Bangladeshi police fired birdshot at crowds trying to pass notes to students taking examinations. Ten students have been arrested and nearly 1,000 expelled in a drive against cheating.

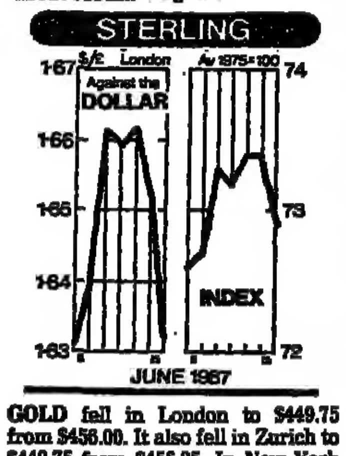
Business summary

Second Channel Tunnel 'possible'

EUROTUNNEL co-chairman Alastair Morton said cash generated from projected heavy use of the Channel Tunnel could finance a second fixed link early next century. Page 24

CIBY-GEIGY, Swiss pharmaceuticals and chemicals company, has agreed in principle to buy Spectra-Physics, a California manufacturer of laser systems, for $36.50 per share in cash, for a total value of about $224m. Page 26

STERLING



GOLD fell in London to $449.75 from $456.00. It also fell in Zurich to $449.75 from $456.25. In New York the August Comex settlement was $456.70. Page 36

DOLLAR closed in New York at DM 1.829; SFr 1.5161 FFr 6.1025; and Y144.85. It rose in London to DM 1.8245 (DM 1.8115); SFr 1.5130 (SFr 1.5000); Y144.75 (Y143.80); and FFr 6.0900 (FFR. 6.0475). On Bank of England figures the dollar's exchange rate index rose to 102.1 from 101.3. Page 37

STERLING closed in New York at $1.6305. It fell in London to $1.6320 ($1.6520). It also fell to DM 2.9775 (DM 2.9925); SFr 2.4700 (SFr 2.4775); FFr 9.9375 (FFr 9.9900); and Y236.25 (Y237.50). The pound's exchange rate index fell to 72.9 from 73.3.

WALL STREET: The Dow Jones industrial average closed up 13.81 at 2,391.54. Page 48

TOKYO: A strong rise by high-technology stocks failed to offset falls in large-capital and consumer-related stocks and prices fell. The Nikkei average shed 137.83 to 25,756.44. Page 48

LONDON: Strong domestic buying pushed equities to a closing peak but gilts fell sharply. The FT-SE 100 index closed up 18.1 at a record 2,307.6 and the FT Ordinary index rose 18.8 to a high of 1,786.6. Page 48

KLUWER, the number three in Dutch publishing, is to merge with its smaller rival Wolters Samsom to head off an unfriendly takeover bid from Elsevier, the second largest publishing company in the Netherlands. Page 25.

BAA, formerly the British Airports Authority, is to come to the London stock market with a flotation of shares in the middle of next month. Page 11

FRANK CAHOUET, a 55-year-old banker with a reputation for turning around troubled banks, is expected to become chairman and chief executive of Mellon Bank which lost $60m in its first-quarter. Page 25

SHELL OIL AND FLUOR, the international and construction group, have agreed to break up their jointly-owned Massey Coal Company and to divide up its assets. Page 25

TOKYO STOCK EXCHANGE is being lobbied by those foreign brokers permitted to trade there over proposed cuts in fixed commissions which the foreigners fear may be imposed discriminatorily. Page 48

UK CHANCELLOR Nigel Lawson told fellow European finance ministers in Luxembourg that the debate was now "more open" on Britain joining the exchange rate mechanism of the European Monetary System. Page 3

CAESAR'S WORLD: Long-running battle for control of the Los Angeles-based gambling and leisure group ended when New York investor Martin Sosnoff withdrew his $1.1bn tender. Page 25.

Brazilians ready to discuss formal accord with IMF

BY IVO DAWNAY IN RIO DE JANEIRO

BRAZIL is ready to discuss a formal agreement with the International Monetary Fund (IMF), reversing 30 months of hostile rhetoric, if the Fund accepts without alteration the country's new economic stabilisation plan.

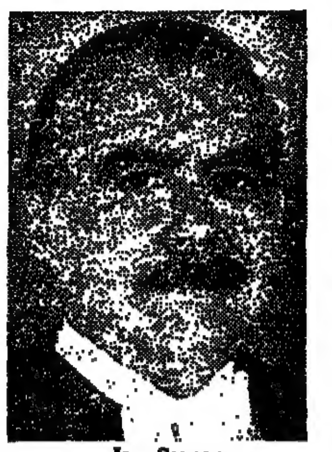
Any such accord, long demanded by commercial banks and the Paris Club group of sovereign creditor countries, could unlock substantial new money to relieve Brazil's $113bn debt burden. It could also hasten the end of its February 20 moratorium on interest payments on $68bn in longer-term private sector loans.

Relations between Brazil and the Fund broke down after two years in 1985 amid fierce recriminations from the Brazilians that the targets imposed could not be achieved without an unacceptable measure of economic recession.

A clear indication that the Government is now markedly softening its stance on the controversial IMF issue came late on Sunday from Mr Luiz Carlos Bresser Pereira, the Finance Minister and chief architect of last week's tough austerity measures.

Defending his plan for a new prices and wages freeze and wide-ranging public expenditure cuts, the Minister made clear that he hoped the programme would form the basis for an accord and the release to Brazil of new IMF loans.

But it is clear that substantial differences still remain over the exact form that a deal would take, with disagreements likely to centre on IMF requirements for specific targets on items such as trade performance, public expenditure and foreign reserves.



Jose Sarney

"We are working with their concepts, not with their objectives, such as targets for trade surpluses," Mr Bresser Pereira said. "But we are disposed to discuss and negotiate."

The statement confirms independent analysts' earlier claims that a major shift in Brazil's position on the IMF has been underway since the resignation of the former Finance Minister, Mr Dilson Funaro in April.

Commentators have noted that Mr Bresser Pereira has already held talks with an IMF team visiting the country under the Fund's statutory Article Four provisions last month. The same team is due to return at Brazil's invitation next week to examine the new plan.

As Brazil's economic crisis has worsened, the public attacks on the IMF have declined markedly, even from the left-wing where opposition to an accord is most vigorous. Significantly, Mr Almir Pazzianotto, the Labour Minister closely associated with centrist union groups, said in the same interview that the debate on an IMF agreement "always has been badly presented and examined."

For the Brazilians, the essential factor in any accord is that it is not viewed by the domestic public as compromising the country's sovereignty over economic affairs.

Nevertheless, Mr Bresser Pereira is this week drawing up his own list of objectives. If these require only minor adjustments in talks with the IMF, it could be argued that Brazilian sovereignty has been maintained.

The pressure for an IMF accord is mounting on Brazil in the light of imminent talks with the Paris Club. A deal could unleash some $2bn in new funds yearly.

A key clue to the Brazilian position is likely to emerge this week in the status accorded to the IMF team. If the visiting officials are accorded a negotiating status, substantive talks may get underway next week.

Editorial comment, Page 22

BIS urges closer co-operation to correct trade imbalances

BY ALEX NICOLL IN BASLE

THE BANK for International Settlements warned yesterday that governments of industrialised countries must co-ordinate their economic policies more closely in order to correct huge imbalances in their trade and avoid a further damaging fall in the dollar.

The Basle-based bank, owned by the world's major central banks, expressed dismay at the development of the world economy over the past year, with economic growth declining and unemployment remaining high.

The BIS, in its annual report and in statements by its officials at the gathering of central bankers for the bank's annual meeting in Basle, thrust the responsibility for further action squarely on to the fiscal policies of major governments.

Monetary policy measures and co-ordinated intervention in the currency markets, it said, could not be expected to work by themselves.

Economic growth had dipped below an annual 2 per cent rate in the first quarter from last year's slow 2½ per cent pace, with lower oil prices not having the stimulative effect that the BIS had expected.

Moreover, the BIS displayed alarm at this year's fall in the dollar and rise in dollar interest rates. These suggested that private capital was no longer willing to finance the US current account deficit.

Although the fall of the dollar did not reduce the nominal payments imbalances of the three major countries – the US, Japan and West Germany – there were signs recently of improvement in trade balances and this was likely to continue.

"So we must have patience," Mr Jean Godeaux, BIS chairman, told the annual meeting. "But patience is not enough. These countries must also demonstrate that they are both willing and able to bring about a greater co-ordination of their macro-economic policies."

He said the Louvre accord earlier this year set the basis for a co-ordinated approach to correcting external imbalances and underlined the crucial role which could be played by exchange rate stabilisation.

Mr Godeaux also welcomed the Venice summit accord last week to intensify co-ordination of policies, particularly because it held out the prospect of additional government measures should economic growth prove insufficient.

Stability of exchange rates could not be achieved by central bank intervention alone. Intervention, Mr Godeaux said, could, however, have a powerful influence, "if it is the signal that macro-economic policies

Continued on Page 24

EC spending talks collapse

BY QUENTIN PEEL IN LUXEMBOURG

THE COMBINED ranks of European Community finance and agriculture minister yesterday abandoned the unequal struggle to find a joint solution to the soaring cost of EC farm spending.

They handed over the problem to the certain prospect of a marathon and bitter farm-price negotiation among the agriculture ministers alone, who seem increasingly unlikely to find any package deal offering any budget savings at all.

Yesterday's much-vaunted "jumbo" meeting called at the request of Mr Jacques Delors, the President of the European Commission, left every national delegation dug in on its familiar position, with little regard for logic or the budgetary consequences.

On the one hand, the farm ministers have already whittled away the Commission's planned savings from Ecu 1.1bn (about $1bn) to just Ecu 340m this year. That would still leave an overspending on agriculture of some Ecu 4bn.

On the other hand, the finance ministers have unilaterally decided on a spending ceiling of under Ecu 23bn for next year, or Ecu 4bn short of the level the Commission believes is absolutely necessary.

The major target of criticism at the meeting was West Germany – the member state which is the largest net contributor to the budget, which is the most fiercely opposed to agricultural price cuts, and yet which is equally opposed to any significant increase in budget contributions.

Mr Gerhard Stoltenberg, the German Finance Minister, gave strong support to the position of his colleague for agriculture, Mr Ignaz Kiechle, especially in opposing any drastic change to the system of monetary compensatory amounts (MCAs) which protects German farmers from the full effects of the strong D-Mark on their national prices.

He refused to accept the arguments of Mr Nigel Lawson and Mr Edouard Balladur, his British and French counterparts, that the MCA system, by tying prices to the strongest EC currency, had actually raised farm prices by 12 per cent since 1984.

However, Mr Lawson was also somewhat inconsistent in calling for the maximum cuts in spending proposed by the European Commission, and then admitting that he could not sanction the proposed tax on oils and fats which would contribute a substantial proportion of the saving. He ended up asking for Ecu 750m in cuts this year, rather than the full Ecu 1.1bn.

The most likely outcome of the meeting is that both the thorny questions of the MCAs and the oils and fats tax will not be resolved by the farm ministers, but end up on the agenda of the EC heads of government at their end-of-month summit.

Students safely evacuate Seoul cathedral

By Maggie Ford in Seoul

THOUSANDS of ordinary citizens took up the campaign for democracy in South Korea yesterday as the students who have spearheaded the movement were safely evacuated from their sanctuary in Seoul's Roman Catholic cathedral.

The students, who had been besieged for five days by riot police, departed for their campuses on buses with priests on board to guarantee their freedom from arrest.

More than 60,000 students demonstrated nationwide yesterday in favour of democracy. Shouting "Down with the dictator," they demanded that President Chun Doo Hwan rescind his April decision to put off talks about democratic change until after the 1988 Seoul Olympic Games.

At one Seoul university, more than 7,000 students fought police with petrol bombs and stones in the surrounding streets. During the day, about 10,000 people in Seoul's office district surrounding the cathedral gathered to chant slogans and sing the national anthem. They were joined in the evening by worshippers carrying candles, along with nuns and priests.

Since last Wednesday, when the country's ruling Democratic Justice Party confirmed Mr Roh Tae Woo as its candidate to succeed President Chun when he steps down next February, the South Korean people have made clear their feeling that this will be a continuation of military-based rule.

Western diplomats and Korean analysts have commented that the violence and public support for change is the strongest seen in the seven years of the Chun Government.

Public protest led by student demonstrations caused the downfall in 1960 of South Korea's first leader, President Syngman Rhee, and played a large part in the background to the assassination of the second, President Park Chung Hee in 1979.

Cardinal Stephen Kim, delivering a sermon during mass at the cathedral last night, stressed the need for peace and reconciliation and an end to the desire to seek revenge. He urged the Government to begin sincere dialogue with the opposition to meet the democratic aspirations of the people.

Feeling against Chun grows, Page 5

Italy poised to vote coalition back to power

BY JOHN WYLES IN ROME

THE ITALIAN people appeared last night to have voted for a renewal of the five-party coalition which collapsed in disarray in March and to have decisively rejected the "socialist alternative" proposed by the Communist Party.

According to projections late last night, the Communist share has fallen from 29.9 per cent of the vote for the Chamber of Deputies to 26.4 per cent – which would be its lowest support since 1963.

Clearest winners among a large field of parties are the Socialists, led by former Prime Minister, Mr Bettino Craxi, and the Greens whose first national election campaign promises to yield around 2.6 per cent of the votes for the lower house of parliament, the Chamber of Deputies. Under the Italian proportional representation system the number of seats gained will accurately reflect the share of the vote.

In the early evening, Doxa, the Italian polling organisation, forecast a 14.4 per cent share for Mr Craxi's Socialists, which would be the party's highest vote since 1968 when it campaigned jointly with the Social Democrats.

If confirmed, Mr Craxi will undoubtedly see this 3 percentage point gain on the party's 1983 result as a reward for his performance over nearly four years as Prime Minister. Speaking on television last night, he said the party was on its way to recovering its historic strength and that a "socialist area" was developing in Italy.

However, any bid Mr Craxi makes to lead the next coalition will be complicated by the fact that the Christian Democrats look likely to have recovered modestly from their historic low of 1983, pushing up their share from 32.9 per cent to 33.8 per cent.

Mr Ciriaco De Mita, the party leader, will be bound to argue that with their position as Italy's largest party somewhat strengthened, the Christian Democrats must take charge of the next government.

For his part, Mr Craxi refused to be drawn on the next coalition line-up saying that he would not give "off-the-cuff" judgments before all the results were in. Commenting on the Christian Democrat vote, he said "even parties which have not won can take some consolation from the results."

Most commentators were agreed last night that, in the words of veteran newspaper editor Mr Indro Montanelli, the Christian Democrats and the Socialists are "condemned to remake the five-party coalition."

Bettino Craxi

Formation of the next government may depend even more heavily on an agreement between the two parties than in 1983 because the Socialist gains appear to have been made largely at the expense of the smaller coalition partners, the Republicans (down from 5.1 per cent to 3.7 per cent), the Social Democrats (down from 4.1 per cent to 3.1 per cent) and the Liberals (down from 2.9 per cent to 2.2 per cent).

Mr Carlo De Benedetti, the president of Olivetti, last night forecast a "very positive" reaction in overseas markets to the election results, claiming that by reducing the Communists' strength, Italian politics were coming into line with the rest of Europe.

The vote demonstrated that the people wanted fewer rows between the parties and the speedy formation of a government, he added.

The success of the Greens was remarkable given their lack of organisation and campaign funds.

They look to have taken a good slice of votes off the Communists, although their challenge forced all the main parties to acquire a greenish hue.

Their solid presence in the next parliament will, among other things, put enormous pressure on the next government to abandon nuclear energy.

The Greens have so far played only a minor part in Italian politics, unlike environmentalist parties in other parts of Europe, notably in West Germany.

But the Italian voters appear, this time, to have responded to environmentalist issues, such as the Chernobyl nuclear accident and the Rhine pollution disaster, in line with their European counterparts by voting for the Greens in greater numbers.

CONTENTS

COMING TO TERMS WITH THE FED'S NEW MAN

Federal Reserve Chairman Alan Greenspan: succeeding a man who achieved demi-god status, Section III

UK steel users appeal for higher quotas

BY WILLIAM DAWKINS IN BRUSSELS

BRITISH STEEL users are demanding "urgent action" from the European Commission to allow more generous output quotas for flat rolled products.

Industrial consumers are facing "serious difficulties and increased costs" because BSC is unable to deliver on time without breaking its EC imposed quotas, says that British Iron and Steel Consumers' Council in a letter to the European Commission.

It points out that BSC is having to pay around £50 per tonne, and sometimes even more, to buy unused steel quotas from its EC competitors to enable it to meet demand from its UK customers. "It is a scandal," and is creating artificial shortages and discrimination between Community countries, said Mr John Safford, the consumer council's director.

EC steel quotas were set in place in 1980 to help support prices while producers tried to shed overcapacity during the recession. The steel consumers' complaint highlights why Britain is one of the very few European steel producing countries to be pressing for a quick end to quotas and a return to a free market.

Most of its EC partners want—in differing degrees—to keep quotas because they believe the steel industry is still too weak to stand the strain of open competition.

The consumer's letter, addressed to Mr Jacques Faure, head of the Commission's steel directorate, says that some British stripmill customers have seen BSC delivery times grow from eight to 12 weeks in recent months.

The only solution for British manufacturing customers is to buy more steel from stockholders—a costlier source than the mills themselves—than they would wish.

If the US steel user is "unable to deliver in the time normally expected by his customers, he also risks losing business to Continental competitors, whose steel deliveries are not so extended," says the consumers' council.

The council is specifically asking for more generous quotas for BSC for flat rolled products, where EC overcapacity is most severe. But its letter adds: "It is high time that the Commission increased quotas across the board so that it is no longer easy for Continental producers to hold BSC to ransom in this way."

Greece glories in prowess of its basketball heroes

BY ANDRIANA IERODIACONOU IN ATHENS

GREECE WOKE up to an extraordinarily festive morning yesterday following the national basketball team's cliffhanger victory against the Soviet Union on Sunday night in the European Basketball Championship, the first such success in the country's athletic history.

The victory coincided with an annual glittering event—the awarding to international personalities and organisations of a set of $100,000 prizes by the Onassis Foundation, established under the terms of ship owner Aristotle Onassis's will in memory of his son Alexander, killed in an air crash in 1973.

Rising to the occasion, the foundation announced yesterday that it was granting an impromptu prize to the national basketball team, whose 103—101 points victory sparked off delirious night-long street celebrations around Greece.

The players thus found themselves in the distinguished company of such as Mr Sandro Pertini, former President of Italy and recipient of the Athenai prize for "helping to bring about the rapprochement of people and the upholding of human dignity," as well as Amnesty International and Archbishop Rivera Y Damas of San Salvador, joint winners of the Aristotelis prize "for a notable contribution to the solution of crucial problems of contemporary society."

Soviet high official jailed over bribes

By Patrick Cockburn in Moscow

THE SOVIET Supreme Court yesterday sentenced Mr Vladimir Shushkov, the former Deputy Minister of Foreign Trade, to 13 years in prison for accepting bribes. He is one of the most senior Soviet officials to have been arrested since the clamp-down on official corruption started after the death of Mr Leonid Brezhnev in 1982.

According to the Soviet news agency Tass, Mr Shushkov was found guilty of taking bribes worth Roubles 127,000 (£127,000) from foreign companies which were not named. In addition to his prison sentence, Mr Shushkov's property has been confiscated.

His wife, Mrs Valentina Shushkova, formerly a senior official of the Soviet State Committee for Science and Technology, received a sentence of 11 years in jail and confiscation of property for accepting bribes.

The court's verdict says they were in return for "a favourable attitude to foreign companies in resolving matters of bilateral scientific, technological and economic co-operation and for assistance to those companies in putting their goods on the Soviet market. She has taken bribes worth Roubles 392,000. Even representatives of foreign concerns described Mrs Shushkova as the 'golden signora' for her greed."

Mr Shushkov held an extremely powerful position at the Foreign Trade Ministry which up to last year had monopoly control over exports and imports. His arrest at the end of 1985 came immediately before a major reform of the powers of the Ministry and a rapid changeover in its senior personnel.

Four foreign trade officials in the foreign trade organisation in charge of the import of construction materials all received long sentences for accepting bribes last year.

● The parents of Mr Mathias Rust, the 19-year-old West German pilot who landed his light aircraft in Red Square on May 28, arrived in Moscow yesterday and will see their son in Lefortovo prison today. The failure of Soviet air defence to stop Mr Rust's flight led to the dismissal of the Defence Minister and the commander-in-chief of air defence.

Eurofighter chief denies claim by Dassault

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

THE POSSIBILITY of the Belgian Government joining the four-nation European Fighter Aircraft programme, currently planned by the UK, West Germany, Italy and Spain, remains wide open and discussions on such participation are continuing.

This was stressed at the Paris International Air Show yesterday by Dr Karl Peter Fichtmuller, president of Eurofighter, the organisation set up to run the 800-aircraft programme, in rebuttal of suggestions over the weekend that Belgium was already set to join the rival French Dassault Rafale fighter programme.

Dr Fichtmuller said that full details of the EFA programme had been given to the Belgian Government and negotiations were continuing.

"Considerable progress has been made," he said. Eurofighter and the four partner companies would warmly welcome our Belgian friends as full members of the partnership. As such they would fully participate together with the other partners in the programme decisions, no matter what proportion of the total number of aircraft they finally decide to take.

"We see no difficulties in enlarging the structure of the existing partnership if the Belgians and other countries wish to join."

Dr Fichtmuller declined to name the other countries with which discussions were under way on possible participation in the EFA programme, but they are believed to include the Netherlands and Denmark.

He also said that the detailed contractual proposals for full-scale development of the EFA had now been passed to the four governments involved. These were under discussion and full development of the aircraft was expected to be authorised before the end of this year.

In the meantime, preliminary engineering was going ahead, in anticipation of that approval, so as not to delay the programme.

Dr Fichtmuller said that the development cost would be about £2.8bn or Ecu 4bn although the ultimate costs including quantity production would be much higher. Dr Fichtmuller also said that the costs of the programme to date were well under control and that the eventual flyaway cost of the EFA per aircraft would be "noticeably below that of the current Tornado multi-role combat aircraft."

There would eventually be four assembly lines for the EFA, one in each of the four main participating countries.

Giving a rough breakdown of the shares of the anticipated production of around 800 aircraft, Dr Fichtmuller said that at present it was envisaged that the UK and West Germany would each take about 250 aircraft, with Italy taking between 150 and 200 aircraft and Spain somewhere between 75 and 100.

Haig Simonian on the W German battle over store opening hours

Unions bar door to longer shopping

WEST GERMANY'S service industries are in a state of flux. In May, the country's banks suffered an unprecedented wave of brief, selective strikes. Now, the focus has shifted to the retail sector, as unions and consumers line up over the bigger issue of greater flexibility and longer shopping hours.

For non-Germans, trained to see the country's labour relations as a model of reason and like - - mindedness between workers and management, the arguments that have been bandied about against greater flexibility can sound remarkably Luddite.

Take banking. Only after 10 hours of "summit" talks in mid-May was a carefully drafted compromise on pay and limited job flexibility finally reached between the Deutsche Angestellten - Gewerkschaft (DAG) and the Gewerkschaft Handel, Banken und Versicherung (HBV)· the two main white-collar unions representing clerical, bank and shop workers.

While the unions only agreed to slightly more flexible hours for a limited number of staff directly advising customers, and postponed their call for a shorter working week until next year, the employers dropped their key demand for Saturday opening.

The bank dispute gave a taste of what may be to come should the present, much wider-ranging, arguments about changing high street shopping hours come to a head.

Hours in West Germany are controlled by the 30-year-old *Ladenschlussgesetz* — the shop closing law which lays down precisely how long shops can stay open. The result is that high streets are virtually dead come closing time at 6.30 pm. Even Saturday is no shoppers' paradise as the law states that doors must clos eas early as 1-2 pm on all but one day a month.

The pressure for change has come from West Germany's liberal Free Democratic Party, which got the initiative for a limited extension in shopping hours written into the planned legislative programme hammered out by the coalition government after January's federal election. A consumer group, the Arbeitsgemeinschaft der Verbraucher, is also pressing for a change.

> No one is talking about a revolution. At stake is a small extension one evening a week to make it easier for working people to get to the shops.

No one is talking about a revolution. At stake is a small extension one evening a week to make it easier for working people to get to the shops.

However, the unions have reacted even more strongly than during the recent banking strikes.

The HBV is now rallying its members, both at work and through a national petition. It is also pamphleteering consumers.

"There is no need to change shopping times in West Germany," insists Mr Eilrich. "It is not even in the interests of the consumer."

Shoppers, he argues, will ultimately lose out because of higher prices as stores try to make up for the cost of later opening. Nor will businesses gain from higher turnover, as all that will happen is that existing buying patterns will be altered.

Mr Ingo Schvope, spokesman for the DAG, is only a little less forthright. "We are using every possibility to avoid a change," he says. The DAG, which, unlike the HBV, is not affiliated to the West German trade union movement, is also lobbying hard and concentrating on influencing public opinion. "In the end, it is a question for the politicians to decide," says Mr Schvope.

The HBV, is also concentrating on persuasion for the time being and heavily stressing the social costs of longer hours. It denies that longer opening could lead to more jobs and better pay for those prepared to work. Instead, it stresses the position of the large number of female shop workers it represents, who often have families and could not work longer hours even if they wanted to.

More important, the union is anxious that its members should not lose existing social benefits if shopping hours are altered. No one actually uses the word "immigrant," but it is clearly implied when the union speaks of a potentially large pool of workers in West Germany who would be ready to take on work its members would not be willing or able to do should shopping hours be changed.

So the HBV is trying hard to wrest a cast-iron commitment from employers to 6.30 pm closing written into this year's retail sector wage negotiations, which are now taking place across the country.

However, as in the banking sector, both the HBV and the DAG are aware that they at least start at a disadvantage. Both unions are operating in areas of traditionally low membership. Unionisation in banking, for example, is above the 18 per cent national average for office workers, but still only amounts to about 25 per cent overall.

Hence their tactic during the bank strikes of concentrating on sensitive areas like computer and settlements centres, and on key urban branches.

However, neither of the service industry unions feels the political cards are necessarily stacked against it. According to the HBV, both Christian Democrat and Christian Social Union politicians have mixed feelings about extending shopping hours, and the union also takes great comfort from the fact that a retail trade association has also come out against a change.

Once the planned legislation is put forward, the political spotlight will shift to Bonn, where the lobbying is already building up.

W German navy ship hit by shells

A West German navy ship was accidentally hit early yesterday by artillery shells from a Warsaw Pact vessel in the Baltic Sea, Reuter reports from Bonn. Three sailors were injured, the Defence Ministry said.

The Neckar, a navy supply and support ship, was struck while observing Warsaw Pact exercises during which pilotless drones launched from shore were shot at from East bloc ships, the ministry said.

It said West Germany believed the incident was accidental and the injured were being flown back to West Germany by helicopter.

It was not immediately clear which country owned the ship which fired the five shots, but it was thought they had come from a Polish vessel.

EUROPEAN NEWS

PARIS PUBLIC SERVICE INITIATIVE

French unions split on strikes move

BY DAVID HOUSEGO IN PARIS

TRADE UNIONS yesterday *were divided in their response* to the French Government's surprise measures to curb short, disruptive stoppages in the public services.

The pro-Socialist CFDT union and the teachers' unions yesterday organised one-hour stoppages and a protest march in Paris but the Communist-led CGT union has called for a day of strikes and protests on Thursday.

Mr Jacques Chirac's Government, which unexpectedly adopted the measures at the *end of last week, is counting on* trade union disunity to dispel opposition to them.

The measures adopted by the National Assembly last week on the propsoal of a private member mean that public employees involved in a stoppage of a few hours will lose the equivalent of a whole day's salary. The move was initially aimed at the air controllers' strike which yesterday entered its ninth week and has been disrupting traffic at French airports. But the Government, taking advantage of the strike's un*popularity, decided to extend* the measure to all public employees.

In doing so, it reversed legislation put through by the Socialists in 1982 which enacted that public employees would only have their pay debited in proportion to the number of hours they were on strike.

Mr Laurent Fabius, the former Socialist Prime Minister, yesterday said that the only effect of the measure would be to "harden strikes" and "*worsen the social climate*."

Mr Herve de Charette, the minister for the public service, said that the existing legislation was scandalous because it encouraged wildcat stoppages by a small number of people.

The Government's calculation is that the new measure is sufficiently popular with the public and its own supporters to impede the trade unions from a major confrontation. But with its prestige eroded by its own divisions, the *risk is* that it could backfire.

Lawson hint on EMS entry for pound

By Quentin Peel in Luxembourg

MR NIGEL LAWSON, the British Chancellor of the Exchequer, yesterday allowed the faintest glimmer of hope to glow that sterling will be brought into the exchange rate mechanism of the European Monetary System in the coming months.

He refused to give his fellow finance ministers any clear commitment on such a move, but agreed that the debate was now "more open" in the wake of last week's general election in the UK.

"It is more open in that it would have been far too complicated to consider in front of an election," he said. 'Once that is out of the way, it becomes something that we can consider on its merits — but that is the only change."

The rest of the EC finance ministers now accept that it is simply a matter of waiting for the British government in general—and Mrs Margaret Thatcher in particular—to change its mind on sterling membership of the EMS, and nobody tried to embarrass Mr Lawson on the subject yesterday.

The move is regarded as the major uncompleted step in a reinforcement of the system currently under discussion.

Later Mr Lawson warned that "a number of political and technical matters remain to be sorted out" before such a move can be made.

Other measures to reinforce the system—such as greater use of intramarginal intervention between currency floors and ceilings, more co-ordination of domestic interest rates, and greater use of economic "convergence indicators"—are still under debate in the EC monetary committee, and the central bank governors' committee.

Bonn takes aim at France's short-range nuclear missiles

BY DAVID MARSH IN BONN

THE West German Government is making clear that it would like to see limits on French tactical nuclear missiles associated with an eventual deal over reducing short-range US and Soviet missiles in Europe.

This emerged in Bonn yesterday as officials welcomed the Nato ministerial meeting in Reyjkavik *at the end of last* week. This came up with a possible mechanism for reducing arsenals of missiles of under 500 km range which particularly worry the Bonn Government as most of them would explode in East or West Germany in the event of nuclear conflict.

West Germany for several years has been worried about how France would use its 120 km-range Pluton missiles in any European war, as they would almost certainly land on West German soil. France is upgrading the force with 300-350 km range Hades missiles due to be deployed from the early *1990s, which would have even* more potential for devastation in West Germany.

Anxiety over the missiles—known in French military parlance as 'pre-strategic" to distinguish them from its longer-range nuclear forces aimed at the Soviet Union — remains in spite of an agreement in 1985 between Chancellor Kohl and President Francois Mitterrand on "consultations" over the use of French nuclear forces.

Howecer, it remains to be seen whether France would agree to any discussions on Pluton or Hades in association with general East-West force reduction talks.

France is not in the integrated military command of Nato and has also — like Britain — fought fiercely against its own relatively modest nuclear strike force beinug included in the superpowers' arms reduction talks.

Sony in EC guarantee offer

BY WILLIAM DAWKINS

SONY, the Japanese producer of consumer electronics, has agred to offer EC-wide guarantees for its products, the European Commission said yesterday.

The move is the start of a campaign by the Brussels authorities to persuade more *multinationals to offer product* guarantees that are equally valid in all 12 member-states. The Commission demanded that Sony offer such a guarantee as a condition for granting the company's distribution networks exemption from EC competion restrictions.

This means consumers will be able to buy Sony products in other EC countries but still be protected against defects at home.

Commission officials are preparing to put similar pressure on another 20 or so EC based multinationals, mostly suppliers of consumer products. The campaign will be welcomed by consumers' organisations, which have complained vociferously in the past about products that are available throughout the Community but only guaranteed against failure in one member state.

"We have a policy of cleaning this whole area up as quickly as possible," said a Commission official.

Yesterday's move follows a European Court decision 18 months ago against a distributor of Swatches in Belgium which had argued unsuccessfully that guarantees were only valid when issued by registered agents in Belgium.

The Commission regards EC-wide guarantees as a key part of encouraging the free movement of goods and hence contributing to its attempts to create a genuine internal market by 1992.

There are no specific Community regulations stipulating that all companies should offer such guarantees. However, practically all distribution or dealership networks have to get special Commission clearance from Article 85 of the Treaty of Rome—the source of EC law—which forbids market sharing likely to distort free competition.

One of the let-out clauses to Article 85 says that market sharing can be allowed so long as consumers get "a fair share of the resulting benefit." The Commission argued that providing guarantees valid throughout the EC was the *only* way to provide that benefit, an approach they are likely to use with the other companies due to come under the spotlight.

Officials stressed that only minor changes had to be made to Sony's original plans in order to gain exemption from com*petition regulations for* its dealerships. However, if Sony—or any of the other companies due for investigation — refused to comply, the Commission would have the right to declare its entire EC dealer network technically against Community law.

Terrorist suspects arrested

By George Graham in Paris

FRENCH POLICE yesterday arrested four suspected terrorists from the Italian Union of Fighting Communists group.

Among the four arrested is Mr Maurizio Locusta, who is accused of taking part in the assassination in March of General Licio Giorgieri, procurement chief in the Italian Defence Ministry.

The Italian police had already arrested a number of members of the Union of Fighting Communists, and two of them were charged earlier this month with General Giorgieri's murder. Mr Locusta was believed to be the terrorist group's remaining leader and the organiser of the murder.

The group had also claimed responsibility for an attack in February on an armoured postal van, in which two policemen were killed, and for a failed assassination attempt last year on a counsellor of the Italian Prime Minister.

The four arrests follow the capture last month of three other Italians linked to the Red Brigades and Prima Linea terrorist groups. They included Mr Vincenzo Olivieri, accused of a number of murders in the Naples region as well as of the 1981 kidnapping of Mr Ciro Cirillo, a Neapolitan Christian Democrat leader.

The French police have also recently recorded a string of successes against Middle Eastern terrorist networks. They believe they have now arrested those responsible for the wave of bombings which killed a dozen people in Paris last year.

The latest arrest of Italian terrorists is seen in Paris as a seal on the agreement of last week's summit meeting in Venice of leaders of the major industrial nations, and on the meeting in Paris a few weeks earlier of interior ministers.

The Paris meeting agreed to forge links in the fight against terrorism between the Trevi group of European countries and the US, Japan and Canada.

Turkey's Prime Minister, Mr Turget Ozal (right above), greets his Iranian opposite number, Mr Mir Hossein Mosavi, on the latter's arrival in Ankara yesterday. Iran's Premier is on a three-day visit to Turkey accompanied by two senior cabinet members, the Ministers of Heavy Industry and Petroleum

Iran PM's visit touches off public row in Turkey

BY DAVID BARCHARD IN IZMIR

THE IRANIAN Prime Minister, Mr Mir Hossein Mosavi, arrived in Ankara yesterday at the start of a top level official visit which has sparked off a serious row among Turkey's opposition parties because of his refusal to pay a courtesy visit to the tomb of Kemal Ataturk.

Mr Mosavi is accompanied by two senior cabinet ministers, the Ministers for Heavy Industry and Petroleum.

It is understood here that he discussed trade and regional issues with the Turkish Prime Minister, Mr Turgut Ozal, when they met yesterday.

The situation in the Gulf and in northern Iraq is also believed to have come up during the talks. Turkey maintains good relations with both Iran and Iraq and neutrality in the eight-year-old war between them. But Iran is understood to have been displeased by repeated Turkish military strikes on Kurdish targets in northern Iraq as it protects several Kurdish groups fighting against Baghdad.

Very considerable importance is being attached to this visit by the Turkish Government. However, Turkish public opinion has been outraged by Mr Mosavi's decision to break with all precedent in local protocol and refusal to visit the mausoleum of Kemal Ataturk, the secularist founder of modern Turkey.

A Foreign Ministry official told local journalists that Turkey had to be "a bit elastic" over the issue.

● Six self-professed left-wing Turkish dissidents yesterday occupied an office of a Turkish bank in Amsterdam for three hours in protest at the alleged deaths in 1984 of four comrades while in Turkish government custody, writes AP.

Ankara's EC application linked to Cyprus solution

BY EDWARD MORTIMER

THE BRITISH government has for the first time publicly linked Turkey's application for European Community membership to a solution of the Cyprus problem, it became clear yesterday.

Dr Homer Habibis, president of the National Federation of Cypriots in Britain, disclosed the text of a letter sent to him on June 2 by Mrs Margaret Thatcher's office in reply to questions he had sent to her.

"With other member states," the letter said, "we shall make sure that consideration of Turkey's application takes full account of all the factors relating not only to Turkey itself but to its relations with every Community country" (ie including Greece) "and third countries" (ie including Cyprus.)

Identical language was used by Mr Norman Tebbit, chairman of the Conservative Party and by Mr Tim Eggar, a junior minister in the Foreign and Commonwealth Office, in reply to a questionnaire sent to candidates by the Cyprus Action Group, a pro-Greek lobby.

Sir Geoffrey Howe, the Foreign Secretary, said at the time of Turkey's application, in April, that Turkey would need to make further progress on human rights before it could be accepted as a full EC member. But this is believed to be the first time British ministers have linked the application specifically to the Cyprus problem and relations with Greece.

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BANK FOR INTERNATIONAL SETTLEMENTS—ANNUAL REPORT

Rapid fiscal action urged on three leading industrial nations

BY ALEXANDER NICOLL, EUROMARKETS EDITOR

AN URGENT plea for heightened coordination between the economic policy-makers of the US, Japan and West Germany is issued today by the Bank for International Settlements.

The annual report of the Basle-based BIS strikes an altogether more sombre tone than the relatively satisfied reviews of the world economy which it has contained over the past two years.

"There is danger ahead, and it must be averted by flexible policy adjustment," it says. The onus is on fiscal policy, since monetary measures can play only a limited role, argues the Bank, which is owned by the world's main central banks.

The danger comes from the huge imbalances in the current accounts of the three major industrialised countries—the US in deficit, and Japan and West Germany in surplus.

The imbalances, it says, have provoked protectionism and the risk of a trade war. They have cast a shadow over growth and investment in the industrialised world and over the ability of developing countries to grow out of their debt problems.

Failure to tackle them would cause new disruptions in financial markets and a renewed fall by the dollar with highly damaging consequences. "It would push up prices and interest rates in the US and slow down growth in Japan and western Europe even further, with dismal prospects for employment in the industrial world."

In language which, for central bankers, could scarcely be more blunt, the BIS says: "Anyone who might be tempted to ignore these warnings on the grounds that they are based on gratuitously pessimistic conjecture should look at developments so far this year in the capital account of the US balance of payments, long-term dollar interest rates, US import prices and economic activity in the major surplus countries of the industrial world.

"These are signals," it ays, "that policy-makers cannot afford to ignore."

The BIS stresses that monetary policy co-ordination will not by itself solve imbalances, though it performs a useful role. It can help to finance payments imbalances, but not to reduce them unless it is supplemented by fiscal measures. Moreover, monetary measures, such as the raising of US interest rates or lowering rates in Japan and West Germany, could damage developing country debtors, stifle US investment, and accelerate already strong money growth in the surplus countries.

Consequently, the BIS argues, the three countries must step up fiscal measures soon, even if this disrupts the attainment of medium-term goals. "If temporary compromises are to be made with medium-term goals, one could argue the sooner the better."

The daunting task facing policy-makers is therefore as follows: to reduce payments imbalances without disrupting the currency and financial markets, without causing recession or rekindling US inflation, without compromising medium-term budget or monetary strategies, and without endangering free trade.

Compared with the need simply to reduce imbalances, the BIS says: "This is a much more formidable undertaking, and one which, in an increasingly interdependent world, is unlikely to be successful without a relatively high degree of policy co-ordination."

The Bank does acknowledge that steps have been taken in the desired direction. Industrialised nations have stepped up co-operation with successive pacts: the Plaza Agreement of 1985, the Tokyo summit of 1986, the Louvre Accord to establish exchange rates this year. (The report was written before last week's Venice summit reaffirmed previously set goals.)

Policy co-ordination, however, has stopped short of a framework with a meduim and long-term view, since all sides are hesitant to make commitments with uncertain implications.

"In the absence of such a framework, policy co-ordination is in danger of remaining essentially a short-term exercise in situations of near-crisis, based on a rather simplified model of the interaction between the economies concerned or, even worse, on different models in the minds of different governments."

Also on the positive side, the Bank detects signs that the massive adjustment in currency values over the past two years is finally working through to reduce the US current account deficit and the surpluses of Japan and West Germany. "Further real adjustment is certainly in the pipeline."

Though the BIS says the burden of responsibility is on governments, a further positive note is its acknowledgement that the three governments concerned have already taken fiscal steps towards the desired end. The US budget deficit appears to be coming under control, West Germany has brought forward some tax relief, and Japan has announced packages to stimulate domestic demand.

The BIS also admits that all three can argue that a speeding up of the process would jeopardise longer-term goals, such as by forcing tax increases in the US. It also recognises the possibility that the financial markets may suddenly recognise that both external balances and domestic fiscal stances have begun to adjust.

But with a starkness bordering on desperation, the BIS asks: "What if they do not? Or what if they do not regard as sufficient the adjustment they see in both areas?"

Governments must recognise, it says, that the international financial integration which they have been promoting curtails the independence of their domestic policies. They must therefore guide the markets with one voice and greater consistency.

Further fiscal measures now, the Bank argues, despite their domestic inconvenience, may be less troublesome than the measures which they would have to take later if the US current account deficit remained too large to be financed by private capital flows

Currency swings put economic bright spots in shade

ITS OPTIMISM of last year dashed, the BIS still notes bright spots in the world economy: low inflation, interest rates and oil prices. However, these were exactly what held out hope for 1986. "Disappointingly, they have not given the boost to economic growth which most observers were confident enough to predict."

Whatever stimulative effects they had appear to have been more than outweighed by the deleterious effects of exchange rate moves. Output growth in the Group of Ten countries rose only 2.5 per cent last year, below the already slower 3 per cent of 1985, and appears to have weakened further this year, the BIS says.

Oil importers reacted slowly to the income gains produced by improvements in their terms of trade. Oil exporters reacted rapidly to falling export earnings, and countries with current account surpluses suffered reduced foreign demand because of appreciating currencies, causing cuts in capital investment spending.

The BIS comments that "where rapid, major developments have adverse effects on some and favourable effects on others, reactions to the adverse effects are almost invariably faster than reactions to favourable ones." A decision to cancel an investment programme can be taken very quickly, but a decision to begin one takes time both to reach and to implement. This is reinforced by the desire to be sure that favourable effects are lasting. "A decade and a half's experience of frequent external shocks has served to strengthen this wait-and-see attitude," the BIS notes gloomily.

Caution over floating rates

THE BIS, in a review of floating exchange rates prompted by the dollar's steep decline over the past two years, finds a number of negative effects. But it also takes encouragement from recent movements.

Over the past ten years, it notes, there have been individual real appreciations of as much as 100 per cent. "Swings of that order of magniture must play havoc with the allocative role of price mechanisms," it says.

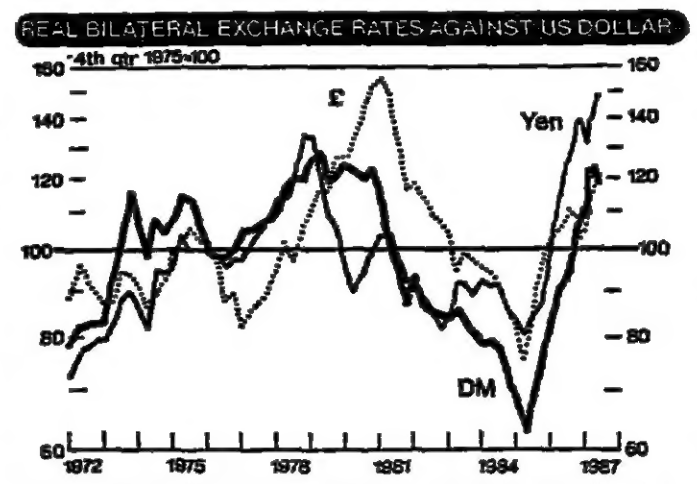
The dollar's rise between 1981 and 1985 was a key factor in the build-up of the US current account deficit and Japan's undesirably large surplus. Although this overvaluation has been corrected, it is a far more difficult and lengthy process for the US to recapture market shares than it was to lose them, the BIS says.

The Bank also remarks: "There can be little doubt that the displacement of factors of production caused by major distortions in real exchange rates entails serious economic and social costs and gives a strong impetus to protectionist pressure."

However, the BIS is heartened by several features of the dollar's fall. Despite its speed, it has not got out of control. From the point of view of resource allocation, a quick fall was preferable to a protracted one. Until this year, it did not halt the easing of US monetary policy. And it took place without a major resurgence of US inflation.

"It is this successful avoidance of a vicious circle of depreciation and inflation which may give grounds for hoping that the imbalances and maladjustments that had resulted from the exaggerated appreciation of the dollar during the early years of this decade can ultimately be corrected without excessive damage to the stability of the world economy."

The satisfactory functioning of a floating rate system is made problematical by the difficulty of determining what exchange rates are appropriate. The latter is particularly difficult, the BIS says, when current account imbalances are large and react slowly to exchange rate changes, and when globalisation of financial markets has increased the volume of internationally mobile funds by comparison with trade flows.



Because markets may be governed by "mass psychology, extrapolative expectations and conjectures about official policy responses," authorities must give clear guidance about their own exchange rate views and intentions, the BIS says.

Baker principles on debt 'still valid'

DESPITE the setback in developing country debt problems over the past year, the principles of the US-sponsored Baker Plan remain valid, the BIS says.

Debtor countries will only resolve their current problems and their creditworthiness through policies which permit diversified, export oriented growth of their economies. Export-led growth is achievable, but will take time, it says.

External financing will be required both from official and private sources. It should include long-term borrowing linked to domestic investment projects, and debtors should also encourage more risk capital to limit rises in their debt.

Industrial countries, meanwhile, must promote structural adjustments in their economies so that there is room for manufacturing and agricultural imports from debtor countries. The BIS notes that this is not easy given agricultural lobbies and high unemployment, especially in times of weak economic growth.

"But no market-oriented solution of the international debt situation will be possible unless the debtor countries' structural adjustment towards export-led growth is parallieled by a corresponding adjustment of economic structures in the industrial countries."

The deterioration in the balance of payments of the heavily - indebted countries covered by the Baker Plan was due to a combination of weak raw material prices and economic mismanagement.

The bank does, however, note some advances in dealing with the debt problem. Interest margins on reschedulings have been reduced, and both dollar interest rates and the dollar itself have fallen, reducing the debt burden and increasing some countries' competitiveness. The World Bank has stepped up its role. Commercial banks have improved their ability to withstand losses.

Though the BIS sees familiar signs of fatigue in banks' growing reluctance to take part in new lending, it also notes more recent steps, including the introduction of exit vehicles. This indicates a more pragmatic approach.

Poles fly to West without detection

By Leslie Colitt in Berlin

THE FLIGHT of two young Poles in a light aircraft to Tempelhof US air base in West Berlin yesterday has underscored the ability of pilots to evade radar detection and intereeption by Warsaw Pact air defences.

Allied officials in West Berlin said that well before the 19-year-old West German, Mr Mathias Rust, who landed in Moscow's Red Square on May 28, low flying sports aircraft have crossed from East to West and vice versa without incident. The Soviet Defence Minister and the Chief of Soviet Air Defences were relieved of their posts after Mr Rust's solo flight across Soviet territory.

The two Poles, aged 21 and 22, who landed yesterday told US Air Force interrogators that they started from Elblag Airport near Gdansk. The pilot said he flew the Zlin 142 at a height of 5-30 metres, low enough to avoid appearing on radar screens.

At no time during the flight was they intercepted by either Polish, East German or Soviet fighters.

Since 1980 50 Poles, including the two who arrived yesterday, have flown to Templehof, several in small low-flying aircraft.

Hijacked Polish airliners which flew at normal altitude on the other hand, were tracked by Warsaw Pact radar and, in several cases, buzzed by fighters. But no serious attempt was made to force them to land because of the danger to passengers.

Sports aircraft flying low from West to East across Warsaw Pact air defences have also made frequent flights without detection. In the late 1970s and early 1980s a West German and an American landed their light aircraft several times in Czechoslovak forest clearings near the Bavarian border. They picked up escapees and flew back to Bavaria without detection but were finally grounded in the West for illegal activities.

Public feeling grows against Chun regime

BY MAGGIE FORD IN SEOUL

"*WHAT DID* you do at the weekend?" a young South Korean stockbroker working for a major foreign firm was asked yesterday.

"I went down to Myongdong Cathedral and joined in the chanting," he replied. He was not by himself in this.

The level of public support for the students besieged until yesterday by riot police at Seoul's main Roman Catholic cathedral has been growing since people first spoke out against the Government last Wednesday.

The cathedral is surrounded by offices of banks, insurance companies and securities firms, in much the same way as the City surrounds St Paul's Cathedral.

For days, the area has been shrouded in tear gas as police attempted to subdue stone-throwing students. Work has slowed as clerks take advantage of the bird's eye view from their upper-floor windows to observe events and report to friends in other parts of town.

In the lunch hour, they have been joining in. Yesterday, as the police withdrew in a show of leniency to encourage the students to give up, more than 10,000 office workers made their way to the cathedral, shouting slogans and singing the national anthem.

It was the election of President Chun Doo Hwan's successor, Mr Roh Tae Woo, as presidential candidate at the ruling party's national convention last Wednesday, that *sparked the present trouble.* "I can't stand the idea of another seven years of this government," said one office worker.

The feeling that now is the time to push for democracy seems quite widespread. One Korean-speaking foreigner was amazed when the customers in a coffee shop at a major downtown hotel stood up and sang the national anthem, as opposition leaders had asked, at 6 pm last Wednesday.

At the same time, motorists in the city centre blew their car horns for more than 20 minutes, driving home the point that they too were in favour of democracy.

A group of businessmen later that day started to complain in a bar at another downtown hotel about the Government, and particularly about the excessive use of tear gas. Witnesses reported that when the barman joined in, complaining about the presence of secret police in the hotel, customers in the bar cheered and clapped.

Foreign businessmen and their families report an upsurge of anti-government comment from maids, drivers and other staff who normally do not discuss politics, especially with their employers.

Market traders and shopkeepers have also been noticed cheering students in their battles with the police. This kind of popular participation has not been seen in South Korea for years.

The significance of public opinion should not be underestimated. The economic deveopment and education level of South Koreans is high, and the general population is no more likely to take to the streets with guns than, say, Italians or Australians.

But on two previous
of governments.
occasions, strong popular feeling has ended in the downfall

The present rise in public feeling sprang first from a speech made by President Chun on April 13 in which he said that the arguments over constitutional revision between the ruling party and the opposition could cause instability and that the talks would therefore be suspended until after the 1988 Seoul Olympic Games. Mr Roh, at a newsconference on Friday, *confirmed that this decision* could not be changed.

Analysts believe that although the Government has always been unpopular, the promise of democracy held out by the talks had previously been enough to convince people that progress was being made. Now public anger is far more palpable.

The Gov.rnment now face a number of difficult challenges in the weeks ahead, even though it has managed to end the student siege without bloodshed.

As one businessman commented: "Whatever happens, I have faith in the Korean people to win out." History would suggest his confidence is well placed.

West fails to keep bargain, say Africans

AFRICAN leaders accused affluent nations yesterday of failing to keep a bargain and match the continent's painful efforts to put its economic house in order with help over its debts, Reuter reports from Abuja, Nigeria.

A conference on the economic plight of the African nations heard Presidents Ibrahim Babangida of Nigeria and Denis Sassou-N'guesso of Congo plead for help in alleviating a debt burden of $175bn (£109bn).

They were backed at the meeting, organised by the *Economic Commission for* Africa, by Miss Monique Landry, Canada's Minister of External Relations.

"*Whether we look at aid or* debt or trade, the rich countries have not as yet lived up to their part of last year's economic recovery pact," she said.

Presidents Babangida and Sassou-N'guesso wanted the debts of the very poor written off, and repayment and grace terms to be eased.

President Babangida said Africa's debt service ratio was "agonisingly high." It was unrealistic to expect any country to spend more than 30 per cent of its earnings on debt servicing—particularly in Africa where world prices for key commodity exports were unstable.

Japan 'pressed over Y6,000bn package'

By Ian Rodger in Tokyo

THE JAPANESE Government might not have introduced its recent Y6,000bn (£18bn) stimulation package, had it not been for pressure from foreign governments, Mr Toyoo Gychten, Vice Minister of Finance for international affairs, suggested yesterday. There was no real need for the package, he implied.

The economy was already beginning to recover, and the Government was becoming "seriously concerned" about bottlenecks developing in the supply of labour and raw materials. The Government remained anxious about its deficit, which will have to rise to finance part of the package.

It was hypothetical to speculate what would have happened if there had been no pressure from foreign governments for a package. But he thought that the Japanese Government would have proceeded with its former policy of fiscal consolidation.

Foreign governments have been pressing Japan to stimulate domestic demand as a means of reducing its large trade surpluses. They hope a strong domestic economy will draw in imports and encourage Japanese companies to concentrate more on home markets.

Many private-sector economists expect internal demand to grow by about 4 per cent in the current fiscal year to March 31, 1988, partly as a result of the package.

Overall economic growth will be significantly lower because of the declining contribution from overseas trade.

The Government would press ahead in July with the supplementary budget to finance its Y2,800bn share of the package, and no opposition to it was expected, he added.

SOUTH AFRICAN MEASURE TO BREAK BLACK RENT STRIKE HITS OPPOSITION

Concern over call to dock pay

BUSINESSES in South Africa voiced alarm yesterday about a government plan to get them to collect, from pay packets, the arrears of black workers who are refusing to settle their rent on their state housing, Reuter reports from Johannesburg.

The Government said last week it was introducing a law to make companies dock employees' pay for outstanding rent. It seeks to break a protest "rent strike" by about 3m blacks.

Businessmen said the measure, if implemented, would increase pressure on foreign corporations to get out of South Africa.

Ford Motor said in Detroit on Sunday that it was considering a pullout, which would make it the latest of several multinational corporations to abandon South Africa.

Businessmen said that by getting them to dock the rent arrears, rather like the way companies collect income tax as "Pay As You Earn" in many nations, the Government could set off a backlash from militant black trade unions.

"US companies are already under enormous strain over their operations in South Africa and anything negative like this just adds to the pressure to disinvest," said Mr Adrian Botha, executive director of the American Chamber of Commerce, which represents most US companies in South Africa.

"We will do everything in our power to dissuade the Government from going ahead with this. It would again drag us into the political arena which is fraught with danger for us," he said.

The Government plan surfaced two weeks after US civil rights leader Mr Leon Sullivan called for total sanctions and the withdrawal of US companies.

Blacks over the past year have refused to pay rents and other charges on state-owned homes as part of a campaign seeking the end of a state of emergency and release of detainees.

They reject government-appointed town councils which are trying to collect the rents. The Government says R271m ($135m) is owed in rent arrears.

"The people believe the Government increases rents every year just to buy guns to kill us," said Mrs Albertina Sisulu, a leader of the anti-apartheid United Democratic Front, who lives in Johannesburg's Soweto township.

"We never see any improvements in conditions in the townships and now the Government wants to interfere with the salaries of the people which are already too low," she said.

"The boycott is very much a political issue with blacks," said Mr Vincent Brett, manpower director of the Association of Chambers of Commerce. "If the employer is dragged into the middle, he is going to be faced with the law on the one hand and demands from workers and threats of strikes on the other.

"There is little doubt that this will spill over into more industrial unrest."

Black trade unions, organisers of anti-apartheid protest, said the Government should not proceed with the plan.

"It's going to trigger big industrial action," said Mr Frank Meintjies, publicity secretary of the 600,000-strong Congress of South African Trade Unions (*Cosatu*).

"The rent boycott is a crisis that reflects the failure of the Government's policies. To transfer this issue into the field of labour relations just compounds the problem," he said.

Mr Chris Heunis, the Constitutional Affairs Minister, said at the weekend he was contemplating measures "to relieve the plight of tenants with low incomes who occupy state-financed housing."

One local authority, however, simultaneously announced an increase in service charged in Soweto.

Soweto's town clerk has suggested the best way out of the crisis would be for companies to increase black employees' wages so they could afford to pay the rent backlog.

Call for calm on Soweto riot day

BLACK YOUTH organisations and anti-Apartheid groups have called for peaceful observance today of the anniversary of the 1976 Soweto riots, a day that is usually marked by nationwide work stayaways and conflicts with police, AP reports from Johannesburg.

The groups deny that they have called for a work stayaway, but many black township councils have declared they will shut down and major employers have given their black workers the day off as a holiday. The mines, which employ 600,000 blacks, have said any employee can take the day off, but will not be paid.

"We want June 16 to be a day of prayer, and for the Government to declare it a non-working day," said Mr Archie Gumede, co-president of the United Democratic Front, the nation's largest anti-apartheid coalition.

Rallies have been scheduled in the townships and church services have been planned, but the organisers are not publicly announcing the venues until the last minute. The leaders of many of the groups are in hiding for fear of emergency detention, and they have issued their plans through pamphlets distributed in the townships.

Police have said they would guard trains and bus stations to prevent intimidation of anyone who wants to go to work. None of the anti-apartheid organisations has made an actual call for a stayaway.

Black bus drivers and taxi-van operators generally observe June 16 as a holiday, affecting hundreds of thousands of black commuters who cannot get to work.

Black schools are in the middle of winter holidays, so youths are expected to be active in commemmorating what Government opponents call South African Youth Day.

Agreement reached on relief aid for Tamils

INDIA and Sri Lanka yesterday reached agreement on the procedures involved in sending relief supplies from India to what an official Indian spokesman called the "long-suffering" Tamils in Jaffna and other parts of northern Sri Lanka.

Relations between the countries deteriorated sharply a fortnight ago when India deliberately violated Sri Lankan air space by sending five *AN-32* aircraft escorted by four sophisticated Mirage 2000 fighters to air-drop the relief supplies over Jaffna.

The air drop was decided on after a flotilla of 20 boats carrying the "humanitarian relief supplies" from the south Indian port of Rameswaran was turned back by the Sri Lanka navy at the maritime boundary.

Since then, a virtual state of hostility has existed between India and Sri Lanka as New Delhi has been insisting on its right to send more supplies to the Tamils. The Sri Lankan Government had initially agreed to this.

After prolonged discussions, it *was announced yesterday that New* Delhi and Colombo had agreed that the relief supplies would be sent by Indian vessels to Kankesanthurai, on the northern coast of the peninsula.

Sri Lanka – Pakistan talks arouse concern

AN UNSCHEDULED (24-hour) stop-over in Pakistan by Sri Lanka's National Security Minister Mr Lalith Athulathmudali today has led to intense speculation in diplomatic circles about strengthening links with Pakistan. The major opposition party has sounded a warning about "regionalising" the island's conflict.

Mr Athulathmudali was scheduled to visit Europe and the US offi*cial sources said he stopped over in* Pakistan to deliver "an important message" from President Jayawardene to General Zia Ul Huq.

The minister has denied Indian reports that he was hoping to negotiate the purchase or lease of an air defence system. Tamil separatist groups, which have accused senior Pakistani military advisers of helping plan the recent military offensive in the island's northern peninsula, claimed that the Sri Lankan Government is seeking large-scale military assistance from Pakistan.

"If these reports are correct, the Government may convert the island into a battleground for an India-Pakistan *proxy war,*" said a spokesman for the former Prime Minister.

Pakistan, a major arms supplier to Sri Lanka, has trained officers and servicemen who have regularly gone in batches to Pakistan.

Australian economy shows firmer trend

THE LEADING index of Australian economic activity continued the upward trend of the previous seven months in March, Westpac Bank and the Melbourne Institute of Applied Economic and Social Research reported yesterday, Reuter reports from Melbourne.

Their leading index rose to 124.0 (base 1980) in March from 122.2 in February (revised from 121.4) and 111.3 a year earlier, they said in a statement.

Annualised, the index rose 12 per cent in March, against an 11 per cent rise in February and a 4 per cent fall in March 1986, based on the ratio of the latest index to the average over the previous 12 months.

Annual growth in the coincident index was 4 per cent in March, the same as in February, compared with a 6 per cent rise a year earlier, Westpac and the Institute said.

Commenting in the statement, Westpac's chief economist Mr Bob Graham said the economy was now performing in accordance with signals which the leading index first began to put out last July.

At that time, the annual rate of growth in the coincident index at 8 per cent was double what it is now, he said.

"However, the pattern of growth was consumer-led – now it is the net export sector which is setting the pace," he said.

● The Australian current account deficit for May could exceed ($1bn) for the first time in four months, compared with an unrevised $996m shortfall for April, market economists polled by Reuters said.

The Statistics Bureau will release the figures today.

Panama City returns to normal

By Peter Ford

BANKS AND most businesses in Panama City returned to normal yesterday after last week's disturbances that shut down much of Panama's capital.

The return to normality appeared to herald the end of a business-led strike demanding the resignation of Panamanian armed forces chief, General Manuel Antonio Noriega.

Leaders of the anti-government "National Civic Crusade," however, said they hoped people would leave their workplaces in the afternoon after collecting their fortnightly pay packets due yesterday.

The banks' decision not to heed the strike call has deprived the protest of much of its strength, but was not unexpected.

"All the foreign banks were very keen to keep working because of the international consequences image - wise," said one foreign banker.

The Government warned over the weekend that businesses staying closed yesterday would risk a $250 a day fine until they opened. They would also be obliged to pay their employees even if they were not working.

The civic crusade was launched last week, demanding Noriega's removal, and an investigation into the allegations by a former army officer that the general had ordered the murder of political rivals, and fixed the 1984 elections.

Although central Panama City appeared mostly to be functioning as usual, the authorities were prepared for any trouble, stationing water cannons at a key intersection. The financial district was wracked by rioting last week, until President Eric Delvalle declared a state of emergency on Wednesday night banning public demonstrations.

There have been only small, sporadic clashes between protesters and security force patrols since then.

Action urged on economic imbalance

Noticeable progress is being made toward reudcing US trade and budget deficit, but Washington and its allies must do more to redress world economic imbalances, Mr Gerald Corrigan, president of the Federal Reserve Bank of New York, said at an economic conference yesterday, Reuters reports

Cannabis has become California's biggest cash crop, worth $3bn, writes Louise Kehoe in San Francisco

Drug officers fail to smoke out marijuana growers

CALIFORNIA'S biggest cash crop is no longer fruit, vegetables or grain, but marijuana. Despite law enforcement efforts to eradicate the "weed," the state's growers anticipate a bumper crop of the illicit drug this year.

Marijuana growing in the US has been on the rise since the early 1970s when the Government began spraying a herbiside, Paraquat, on marijuana crops in Mexico. California, with both the climate and the local market for the drug, quickly became the largest producer.

Last year Californian growers harvested an estimated $3.1bn worth of marijuana, up from $2.5bn in 1985. This year the crop value could almost double because of a sharp increase in wholesale price for "North Coast Sinsemilla" — a native Californian variety reputed to be the most potent "pot" in the world, according to a recent survey by the National Organisation for the Reform of Maripjuana 1L f3.1o MS Sc T juana Laws (NORML), which favours legalisation of marijuana.

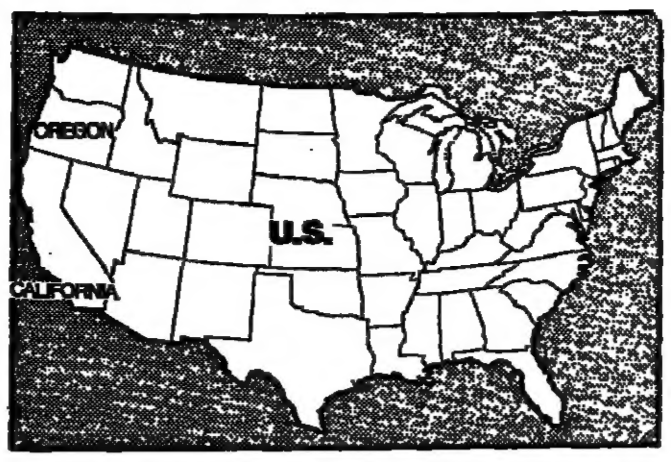
In contrast, state authorities say they have dramatically reduced marijuana production. "We claim a 75 per cent reduction in the number of plants in the ground since 1083," said a spokesman for the Campaign Against Marijuana Planting," a joint federal, state and local agency programme begun four years ago.

But local law enforcement officers in Humboldt county, at the heart of the so-called Emerald Triangle pot-growing region of Northern California, concede that efforts to eradicate the drug have had not been as successful as they had hoped.

"The figures are believable." says Sergeant Frank Burkhart, head of the marijuana eradicaaion team at Humboldt County Sheriff's Department.

"Last year we managed to destroy about 47,000 plants, that is about 50 per cent of the plants that we spotted."

Hundreds of thousands of other plants may not have been dedected, he admits. "We have hundreds of diehard growers willing to gamble on not being caught and just five of us out looking for them. The problem is resources."



Finding the "pot farms" is not easy. Most are concealed in the extensive national and state park lands and forests along the California coast. Growers prefer to use public lands because the "owners" of a plot cannot be traced.

A recent supreme court decision upholding claims of illegal search by a grower whose greenhouse plants were spied by an airborne patrol will also make the job more difficult this year.

Each summer for the past four years the efforts of local police and sheriffs have been boosted by federal and state funds and agents attached to the "camp" programme.

Camp's paramilitary - style helicopter raids on pot farmers have drawn considerable attention to the drug problem, and are credited with reducing violent crime associated with marijuana-growing. While growers used to fight among themselves and pot poachers were the targets of man-traps and shootings, the Camp raiders have now become the "enemy."

However, the success of the Camp programme in reducing marijuana-growing is questionable. Officials say that last year they found fewer plants, and concluded that there were fewer to find. Others suggest that the plants were still there, but more carefully hidden.

Camp has effectively reduced the growing in Humboldt County, but the growers have just been scattered through a wider region and out of California into Oregon," says Jon Gettman of NORML. "And there is a boom in indoor growing, where the plants cannot be detected from the air.

"The growers have developed new techniques and strategies. They hide plants under trees and bushes, and more and more marijuana is being grown in greenhouses."

Local authorities agree. "Several companies are making a lot of money selling equipment and lights to people who cultivate the plants in their living rooms," Sgt Burkhart adds.

Even threats to seize the homes and property of convicted growers have not deterred the pot farmers. Mortgage loans on the properties and other legal entanglements make it very difficult for authorities to make good on their threats and the growers know it, law officers complain.

Critics of Camp complain that all it has achieved is to increase the price of marijuana. In California wholesale prices now range from $4,000 to $5,000 per pound, double last year's price.

As the crop becomes more lucrative, there are fears that more people will be tempted to cultivate it.

Demand for the drug is also on the rise, according to NORML. While the US government has estimated that there are 30m marijuana users in the country, NORML says the number has risen to 50m.

Domestic US production of marijuana totalled 13.5m pounds last year, worth $26.7bn, the group estimates.

"If marijuana were legalised and taxed at the rate of $35 per ounce on the retail price, the government could raise $18bn in tax revenues," Mr Gettman of NORML argues.

Central America peace hopes fade

BY DAVID GARDNER IN MEXICO CITY

HOPSE for a negotiated settlement in Central America—revived by President Oscar Arias of Costa Rica's peace plan—have been at least temporarily buried under a pile of declarations and counter-declarations by the region's leaders.

The plan, due to have been discussed at a summit of Central America's five presidents in Guatemala next week, has been put on hold after first El Salvador and then Honduras called late last week for the meeting to be postponed.

The call, by the Reagan Administration's two closest allies in the region—which together will receive a direct US subvention this fiscal year of over $1bn—came after last week's tour of the region by Mr Philip Habib, Mr Reagan's special envoy for Central America.

As Costa Rica, Guatemala, and Nicaragua made last ditch attempts to save the summit, due to be held on June 25-26 in Guatemala City, President Jose

Oscar Arias: irritated by procedural wrangles

Napoleon Duarte of El Salvador said the Arias initiative, announced four months ago, had not been adequately prepared.

President Vinicio Cerezo of Guatemala, a US ally who has tried to pursue a policy of so-called "active neutrality" in the dispute between the US and Nicaragua, was quoted by agencies as saying that Washington's image would be badly affected "since everyone will think that US influence determined the collapse of the meeting."

President Daniel Ortega of Nicaragua has called for the summit to go ahead as planned. The Sandinista leader's wife, Mrs Rosario Murillo, reportedly carried a letter to President Arias over the weekend urging him to press the other Central American leaders to attend.

The Sandinistas have openly accused Washington of sabotaging the peace plan, which among other things would require simultaneous ceasefires accross the region, thereby neutralising the US-backed Nicaraguan Contra rebels while peace talks went ahead with "unarmed internal oppositions."

President Arias, just back from a 26-day tour of western Europe drumming up support for his plan, was quoted yesterday expressing irritation with the procedural obfuscation which has now covered his plan, distinguished—unlike the Contadora group's attempts to bring peace to the region—by its simplicity.

"We can't be going from meeting to meeting like the Contadora group foreign ministers, from beach resort to beach resort," President Arias was quoted as saying.

Contadora, made up originally of Colombia, Mexico, Panama and Venezuela, and reinforced by Argentina, Brazil, Peru and Uruguay, has tried unsuccessfully for over four years to get the Central American nations to agree on a regional peace treaty.

● Honduras authorities are investigating the fatal shooting of an American soldier while on patrol at a US air base AP reports.

Sgt Randall Harris, 34, was shot near the front gate of Palmerola air base.

Brazil proposes boost for workers' rights

BY IVO DAWNAY IN RIO DE JANEIRO

REFORMERS IN Brazil's Constitutional Assembly yesterday approved a major extension of workers' and unions' rights but were heavily defeated in their efforts to halt foreign banks from taking deposits in the country.

The breakthrough for the centre-left in the "social order" committee, currently drafting clauses for Brazil's new constitution, came at 5 am after a night of discussions. In the vote, members unanimously agreed to reduce the working week from 48 hours to 40 hours, and to establish tough new guarantees on job security.

These measures had been vigorously opposed by most of Brazil's business community

But in a parallel financial committee, an attempt by the Left to prevent foreign banks taking deposits from local clients was thrown out by a large majority. While major deposit-takers in Brazil, such as Citibank and Lloyds, had expected the outcome, the decision has nevertheless come as a relief to foreign banks.

Technically, the conclusions of both committees could be overturned during the lengthy drafting process when they go for debate by a fully plenary session of the Assembly.

However, poltical commentators believe that a built-in centre-right majority will ensure that the decision on banking will almost certainly be upheld in the final draft.

There is less certainty that the gains won by trades union lobby will be maintained. Business leaders are expected to mount a campaign to reverse the 40-hour-week and to eliminate provisions that offer virtual life-long job security after two years service.

Nevertheless, the conclusions of the social committee suggest that the unions' two most crucial demands—firm guarantees on the right to strike and to organise—will now be written into the final document.

Canadian postmen threaten strikes

By Bernard Simon in Toronto

CANADA'S Progressive Conservative Government faces a major test of strength against 20,000 postmen who are expected to strike from today.

Barring a last-minute peace move, the Letter Carriers' Union has threatened to cripple postal services, beginning with a series of "rotating" strikes in which members in different parts of the country will stop work at short notice.

The dispute centres on demands by the loss-making Canada Post for productivity and job security concessions as part of the state agency's efforts to break even by next year. Canada Post suffered a C$184m loss in the year to March 31 1986.

The notorious inefficiency of Canada's postal service is often blamed on poor labour relations at Canada Post, where an ultra-conservative management is confronted by some of the most stubborn unions in the country. A strike by mail sorters brought postal services to a halt for six weeks in 1981.

The federal government has said it wants to stay out of the latest dispute. But it apparently hopes that a public outcry against disruption of postal services will give it an opportunity to score badly-needed political points.

The Government may push special legislation through parliament ordering the letter carriers back to work. Besides the risk of alienating public opinion, the union has no strike fund.

Canada Post has pledged to maintain services despite the action. It has recently hired a large number of casual workers

But other postal unions have promised to support the letter carriers. Mr Jean-Claude Parrot, president of the Canadian Union of Postal Workers, said that mail will not move if a strike is called.

North granted limited immunity

LT COL OLIVER NORTH, the sacked White House aide, was yesterday granted limited immunity from prosecution by a US Federal judge. This clears the way for Congressional investigators to question him later this week about his role in the Iran/Contra scandal.

WORLD TRADE NEWS

Bonn seeks to secure Albanian chrome supply

BY DAVID MARSH IN BONN

WEST GERMANY is hoping to forge diplomatic relations with Albania in a move which would be geared partly to securing supplies of chrome from the Balkan state.

Several years of preparatory talks in Vienna between Bonn and Tirana led this month to a visit by a West German government delegation to prepare the way for an exchange of ambassadors, perhaps later this year.

West Germany took 68 per cent of its imports of chrome ore last year from South Africa but is anxious to increase the proportion from the other two main suppliers, Albania and Turkey, to reduce dependence on imports from Pretoria.

Albania has started to move out gradually from its self-imposed post-war isolation and has dropped its previous insistence that West Germany should pay more than $5bn in war reparations as a condition for taking up diplomatic relations.

West Germany's imports from Albania rose last year 15 per cent to a still negligible DM 45m, with exports dropping 17 per cent to DM 39m, according to latest Economics Ministry figures. One reason for the extremely low level of trade—West Germany transacts three times as much with North Korea—is that Albania still refuses to take up credits, the Economics Ministry says.

In an overall survey of West Germany's East bloc trade, 40 per cent of which is with the Soviet Union, the Ministry says total trade last year fell 13 per cent to DM47.1bn. This made up 5 per cent of the Federal Republic's overall foreign trade.

Last year's drop was due to declines in prices for oil, petroleum products and natural gas, as well as currency shortages in East bloc countries and uncertainties over the beginning of the Soviet Union's new five-year plan.

West German exports to the East bloc, including China, fell 7.3 per cent to DM 25.9bn while imports fell 19.3 per cent to DM 21.1bn, matching the level of 1982.

West German exports to the Soviet Union fell 11 per cent to DM 9.4bn. Sales were down 13.6 per cent to Poland, 1.4 per cent to Czechoslovakia, 2.1 per cent to Hungary, 18.8 per cent to Romania and 3.8 per cent to China. Exports to Bulgaria however rose 1.7 per cent.

Imports fell 31.3 per cent from the Soviet Union, 15.7 per cent from Poland, 12.8 per cent from Czechoslovakia, 7.1 per cent from Hungary and 14 per cent from Bulgaria. Imports however rose 5.8 per cent from China and 4.1 per cent from Romania.

Free trade system 'at risk from Japan surpluses'

BY CARLA RAPOPORT IN TOKYO

JAPAN'S PERSISTENT trade surpluses could result in a loss of faith in the free trade system, according to the Ministry of International Trade and Industry's White Paper on international trade.

The paper warns that Japan must reduce its current account surplus, but says that exchange rate adjustments will not do the job alone. The White Paper calls on the US to reduce its deficit to help solve the problem.

Miti points out that the US is still heavily dependent on imports, despite the heavy devaluation of the dollar.

The report continues: "Perhaps more than anything else, what is needed to reduce America's trade deficit is efforts by the nation's manufacturing industries to strengthen the production base and raise international competitiveness."

"Rather than taking easy refuge in protectionism, the UE needs to substantively improve its industrial competitiveness," the report states.

The report also calls on Japan to act for the benefit of the world economy by opening up its markets further

Hitachi sets up software centre in London

By Yoko Shibata in Tokyo and David Thomas in London

HITACHI, the Japanese electronics group, is establishing a computer software centre in London to produce software for large workstations and to work on artificial intelligence, one of the most advanced developments in computing.

Many Japanese companies have been criticised in the past for failing to carry out advanced development work, such as on computer software, in Europe.

Mr Atsu Kimura, development manager of Hitachi's computer system group, said the company was planning to develop software in London for the planned launch in Europe next year of part of its workstation range.

This fits into Hitachi's new strategy of exporting computers under its own name. Until now, Hitachi has been selling its large computers in Europe under other companies' brand names.

Hitachi provides mainframe computers and magnetic discs to Compalex, a joint venture of BASF and Siemens of West Germany, and Olivetti of Italy.

Hitachi wants to collaborate with British universities and research centres on artificial intelligence work, particularly on applications for the financial sector, and is hoping to import software developed in the UK into Japan.

US returns to Poznan

POLISH officials welcomed US firms back to a world trade fair at Poznan after a six-year gap as a sign of a thaw in relations, but renewed their call for help in overcoming Poland's economic crisis, Reuter reports from Warsaw.

The US exhibitors, which stayed away in the chill that followed the declaration of martial law in Poland in 1981, include electronics giant IBM and are among more than 2,000 foreign companies represented in the western Polish city.

Polish Prime Minister Zbigniew Messner, who attended the opening of the 59th annual Poznan fair, said that the US representation was modest and said: "It is only a beginning."

General Dynamics wins Atlas Centaur backing

GENERAL DYNAMICS said yesterday it will build 18 new Atlas Centaur launch vehicles for commercial use, an investment of about $100m, AP reports from Paris.

Three customers have already made reservations for commercial Atlas Centaur launches, which will begin in 1989, the company said.

Mr Alan Lovelace, General manager of the space systems division, said it is one of the largest single commercial space commitments yet.

The US Space Shuttle has been grounded since January 1986, when the Challenger was destroyed. Nasa is now aiming for a shuttle launch in June 1988, but government and scientific projects will have priority.

Commercial satellite launch customers are being courted by the European Ariane rocket programme, China and the Soviet Union.

The Ariane has been grounded since an accident in May 1986. Its next launch is tentatively set for late this summer.

Under the Atlas Centaur commercial programme, customers buy the vehicles and the launch services directly from General Dynamics. The cost per customer will be about $59m, the company said.

The vehicles are being marketed worldwide, Mr Lovelace said. General Dynamics offers a package that includes a guaranteed reflight, at no additional cost, if there is a failure.

The new launch vehicles will be built at General Dynamics' space systems division in San Diego, California.

They will be launched from Cape Canaveral under an agreement with Nasa, which has used the Atlas Centaur for launches in the past.

The first production lot of Atlas Centaurs was also 18 vehicles.

The Pratt & Whitney division of United Technologies is the maker of the Centaur engines. Rockwell International manufactures the Atlas engines.

Honeywell and Teledyne make the Centaur avionics equipment.

Finns enter Soviet joint ventures

TWO FINNISH companies, national airline Finnair and a paint company, have signed joint venture deals with the Soviet Union, company officials said yesterday, Reuter reports from Helsinki

The agreements appear to be the first of their kind since the Soviet authorities said they would welcome joint ventures and set rules for them in reforms to rejuvenate the economy under Mr Mikhail Gorbachev.

Finnair will be involved in the renovating and running of Moscow's Berlin Hotel. Paint company Oy Sadolin An has signed an agreement for a joint venture in Soviet Estonia to produce wood-protectant.

Several hundred Western firms have expressed interest in joint businesses in the Soviet Union.

Finnair signed a preliminary agreement early this year but further talks were needed on matters including taxes.

Nuclear power order for Daya Bay

By Our Foreign Staff

AN ORDER worth Y30bn ($208m) to build two nuclear power plants as part of China's $4bn Daya Bay project has been signed by a consortium of Maeda Construction of Japan, Campenon Bernard of France, and Huaxing Construction and Second Bureau of China State Construction of China with Guangdong Nuclear Power, a Sino-Hong Kong joint venture company.

Maeda said in Tokyo that the two pressurised water reactors would have a capacity of 900,000 kw each and were scheduled to start operations in November 1992 and July 1993. Guangdong plans to sell about 70 per cent of the electricity produced at the plant in Shenzen to Hong Kong.

● Nissho Iwai and Mitsui Engineering and Shipbuilding have won an order for a barge-mounted power plant worth Y10bn from the Egyptian Electricity Authority.

Protectionist moves 'lop-sided'

BY PETER MONTAGNON, WORLD TRADE EDITOR

INDUSTRIAL countries considering trade measures to protect specific industrial sectors should set up an inquiry process so that the public can be better informed of the costs and benefits involved, according to a study by two economists from international economic organisations.

Writing in the latest issue of The World Economy,* Dr Samuel Laird of the World Bank and Dr Gary Sampson of Unctad, argue that protectionist measures are too often taken with scant regard to their overall impact on the national economy. This produces lop-sided benefits for specific groups which may even be detrimental to other exporters.

"It is important to find a counterweight to the mismatch of power between the well-organised few (specific interest groups) and the disparate many (unco-ordinated consumers and purchasers of intermediate goods)," they say.

Public inquiry machinery, which takes account of the views of all interested parties, would be a way of increasing the transparency of a process that ironically is usually more subject to detailed scrutiny at an international rather than at domestic level.

The introduction of such machinery could form part of the review of the safeguards procedure of the General Agreement on Tariffs and Trade now under way in the Uruguay round.

Under Gatt, countries are allowed to introduced temporary protection for industries suffering serious injury as a result of competition from imports, but it is widely accepted that this is open to distortion and abuse.

"Insulating producers from the forces of change negates the benefits that could accrue to the community at large as a result of market - led structural change," Dr Laird and Dr Sampson argue.

The effects of protection are more pervasive and costly than the public generally perceives, they say.

For example, US exporters of cotton fibres, dyes and textile machinery have seen their markets abroad disrupted by the curtailment of US imports of textiles under the Multi-fibre Arrangement.

Protection accorded to one industry through trade restrictions or other forms of public assistance, constitutes preferment, not so much over foreign goods as over other domestic interests, and produces a domino effect, they say.

It would be in the better interest of car manufacturers to lobby against steel import restraint which pushes up their raw material costs than press for restrictions against cheap vehicle imports.

The World Economy, published by Basil Blackwell for the Trade Policy Research Centre, 1, Gough Square, London EC4A 3DE.

Honda to establish assembly in Vietnam

HONDA Motor will assemble small motorcycles in Ho Chi Minh City, Vietnam, at a rate of 2,000 units a year in a joint arrangement with a local enterprise co-operative for sales within the country, company officials said yesterday, AP reports from Tokyo.

The accord was signed recently between a Japanese trading company representing Honda and a group of bicycle and motorcycle manufacturers in the southern Vietnamese city, formerly Saigon.

Although officials declined to specify further details about the type of motorcycle to be assembled, Japanese reports said the motorcycles will be equipped with 50cc and 70cc engines.

Officials said Honda will bring in all necessary components for assembly from Japan.

The move is aimed at offsetting a recent strong yen-triggered rise in the prices of Honda motorcycles in Vietnam, an official said.

The yen's sharp appreciation has made Japanese-produced motorcycles more expensive.

Matra to use Chinese rocket for projects

By George Graham in Paris

MATRA, the French state-owned defence and electronics group, has turned to China to fill the gap left by the failures of the European Ariane space rockets.

The French group has signed an agreement to launch two experiments in the next capsule to be put into orbit by China's Long March rocket.

The launch is expected to take place before the end of 1987, carrying the Matra biological and microgravity experiments.

The agreement rubs salt in the wounds of the Ariane group, which has suffered from a string of engine failures. These have caused a long interruption in the series of Ariane launches, which are due to resume in August.

Other satellite launchers, particularly the US space shuttle but also the US private sector launchers using the Delta and Titan rockets, have also suffered from a number of setbacks over the past year.

Although it is involved in some of the work on the Ariane programme, Matra has also previously worked on manned space flight experiements with both the Soviet Union and the US. Matra is also involved in television and telecommunications satellites.

Mr Jean-Luc Lagardere, Matra's president, said yesterday at the Le Bourget air show near Paris that the group had completed last week a successful test launch of the new Apache air-to-ground missile it has developed jointly with Messerschmitt Bolkow Blohm of West Germany. The missile should be ready for use from 1992, he said.

Matra, which is 50.1 per cent owned by the French Government, is widely expected to be sold off this autumn.

Rockwell wins $65m missile contract

ROCKWELL International of the US yesterday said Sweden had placed a $65m order for its Hellfire missiles system, reports AP from Paris. It is the first foreign sale of the weapon.

The contract calls for the initial sale of 700 of the shore defence anti-ship missiles, the company said at the Paris air show.

UK NEWS – AFTER THE ELECTION

Opinions that were polls apart

Peter Riddell on the accuracy of election voting predictions

THERE was such a plethora of opinion polls during the election campaign that the results were bound to be mixed.

The main conclusion is that the familiar national surveys by established polling organisations were broadly correct and the special surveys of a range of marginal seats or particular constituencies were less reliable.

The national polls were broadly stable during the last three weeks of the campaign, certainly within the margin of error of 3 percentage points to 4 percentage points. The average final rating of the main polls was 42 per cent for the Tories, 34 per cent for Labour, and 22 per cent for the SDP/Liberal Alliance.

In the outcome, the Tories' share was understated by one point, as was the Alliance's, while Labour's rating was overstated by two points.

The prize for being nearest goes, as at the last two general elections, to Market and Opinion Research International which had Labour's share exactly right and was only a point out with the other groups.

These projections of voting share cannot be neatly translated into the distribution of seats won because of possible variations between parts of the country. The national polls could not, by definition, measure the large swing to Labour in Scotland and the different trends in the Midlands and London.

Hence, most of the polls considerably understated the size of the Conservative majority. This was illustrated by the exit poll for ITN undertaken last Thursday by Harris Research. This was highly accurate on the shares of the vote, only understating the Tory share by one point. But ITN initially projected a 68 *majority* of seats which turned out to be 34 short of the outcome.

By contrast, the BBC's projections on the night, based on a Gallup survey of nearly 5,000 voters on polling day and the day before, projected a majority of only 26, but with a large margin of error. The Gallup poll understated the Tory share by three points and overstated Labour by a similar amount. This could reflect either a last-minute switch of votes or an error.

The BBC faces more serious embarrassment over its Newsnight surveys of marginal seats undertaken by polytechnic and university departments of policies throughout Britain. These showed large movements in favour of Labour in marginal seats, larger than actually occurred. Although the BBC was cautious in its interpretation, rumours that the polls might imply a hung parliament shook the stock market.

There were several polls of groups of marginal seats by mainstream polling bodies and these produced contradictory results, some suggesting that Labour was doing better there than elsewhere and some worse. The national surveys were, however, a better guide.

The polls of individual constituencies produced mixed results. The Harris Research polls for Channel Four News *consistently forecast* a Labour gain in Calder Valley (the Tories held the seat comfortably) and the projection of a late swing to the Alliance in Cheltenham was wrong. But *Harris was right in suggesting* that the Tories would hold Dudley West.

Following considerable errors during the 1983 campaign, much less attention was paid *this time to telephone polls.*

Roger Taylor

Look snappy: Cecil Parkinson, the Energy Secretary, at a photocall in his Millbank office yesterday

Scottish Liberal leader warns of violent action by extremists

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

SCOTTISH resentment could "boil over into form of violence" if the Government pays no attention to demands for a Scottish assembly, Sir Russell Johnston, MP, Leader of the Scottish Liberal Party, warned yesterday.

He said that "hotheads at the extremes of politics" might get out of control and pursue policies of civil disobedience in protest a gainst the Government. He stressed that he himself would not condone such policies.

Sir Russell said that the Government had to face the fact that a clear majority of the people of Scotland voted in the general election for some form of devolution and against a "continuation of the levels of unemployment which we have suffered."

The Conservative Party lost 11 of its 21 Scottish seats and saw its share of the vote decline from 28 per cent to 24 per cent. Labour won 50 seats, a gain of nine, and took 42 per cent of the vote. Of the remainder of the 72 Scottish seats, nine are held by the Alliance and three by the Scottish National Party.

Only the Conservative Party manifesto had no commitment to a form of Scottish assembly.

The 50 *Labour* MPs will meet in *Glasgow today to formulate a strategy for opposing the Government in the Commons.* The party's Scottish Executive Committee agreed at the weekend on a strategy of arousing sup*port in Scotland for a parlia*mentary bill to set up an assembly which would be presented to the Commons within a year.

Mr Donald Dewar, the shadow Scottish Secretary, is to seek a *meeting with Mr Malcolm Rif*kind, the Scottish Secretary, before the Queen's Speech at which he will demand the establishment of an assembly, the scrapping of the community *charge or poll tax which is* to replace rates in Scotland in 1989, action on jobs and the economy, no further privatisation affecting Scotland and more resources for health and education.

If he did not obtain a "satisfactory response" the Labour Party "will initiate a programme of action aimed at making the Government come to terms with their impossible position in Scotland."

The party's proposed campaign in Scotland, which will *include rallies and will involve* Labour-controlled local authorities and the Scottish Trades Union Congress, appears aimed *at countering Conservative sug*gestions that there is little deep-seated support for a Scottish assembly in Scotland.

"We intend to ensure that when that appeal for devolution in Scotland is laid before parliament there can be no doubts as to the strength of feeling of the Scottish people," the executive said in its statement.

Mr Cambell Christie, general secretary of the STUC, said yesterday that Labour should talk to the other Scottish political parties to form "the broadest possible alliance to put *pressure on the Government."*

Young proposes inner city partnerships

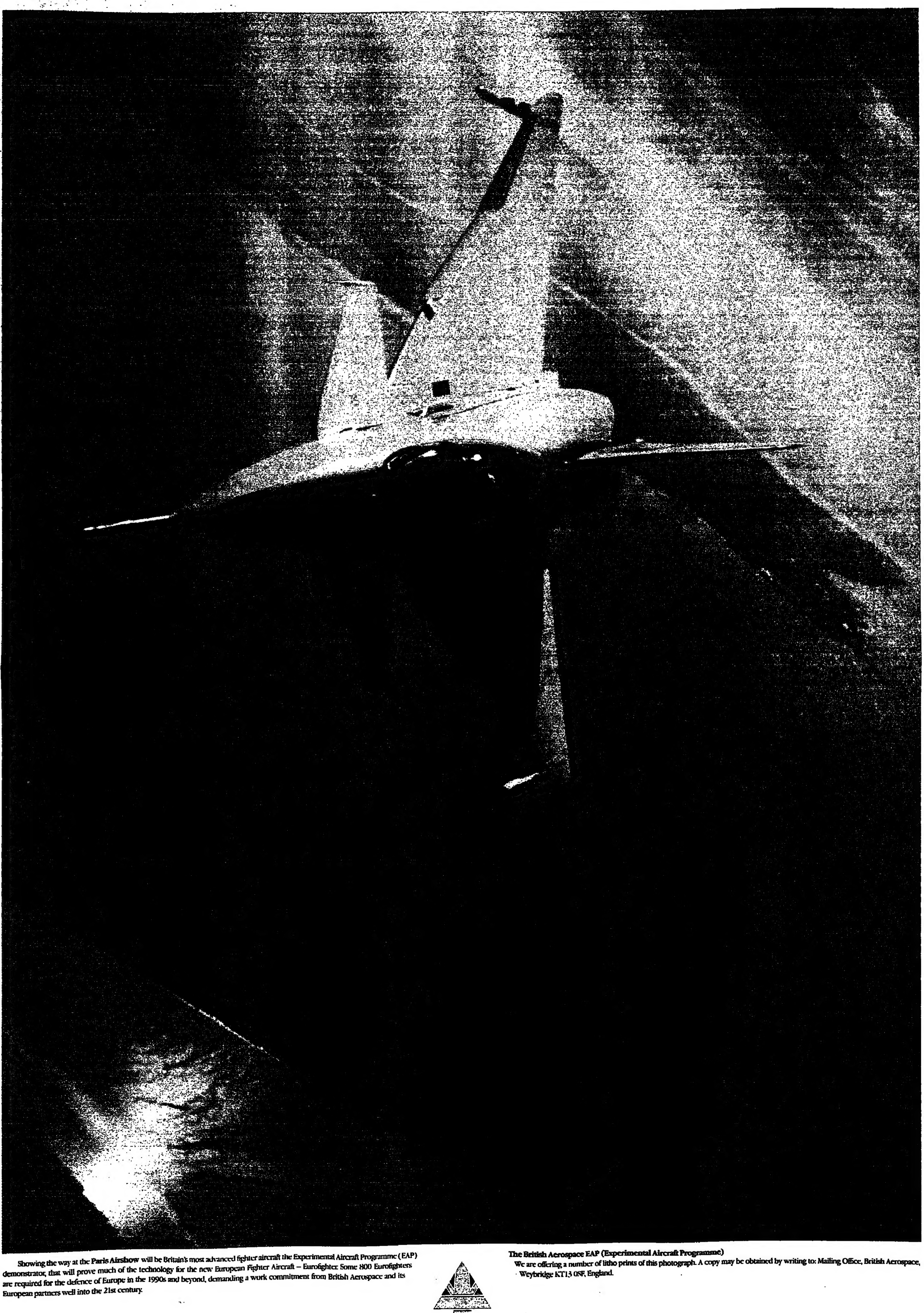
BY ALAN PIKE, SOCIAL AFFAIRS CORRESPONDENT

THE GOVERNMENT will not seek to "pour money" into inner cities, Lord Young, the Trade and Industry Secretary, said yesterday.

Lord Young said *on* Independent Television that Liverpool had received more money than any other city in the country and "not very *much* seems to have happened to that enormous investment."

He said he would seek to extend inner city initiatives so that local people were involved in *partnerships.* "*What* we have got to do in the inner cities is to help people there start coming back into the world of work. To start work perhaps for themselves, perhaps as co-operatives."

Lord Young warned that if necessary the Government would find ways of bypassing *local authorities that* presented problems to its strategy and would "go directly to the people living in the inner cities."



Bill Robinson looks at the outlook for the dollar after the Venice summit

A heavy landing in prospect

WORLD FINANCIAL markets have plenty to digest: the re-election of Mrs Thatcher, the replacement of Mr Paul Volcker as Federal Reserve Board chairman by Dr Alan Greenspan, and the outcome of the Venice summit.

The news from Venice was that there was no news—certainly no new initiatives on the US budget deficit. American fiscal policy thus remains lax, which is why the departure of a stern monetary disciplinarian must raise new doubts about the future of the dollar.

With election uncertainties removed, London is an obvious haven for funds fleeing New York. Having survived the crisis of the $1 pound, Mrs Thatcher may next face the problem of a $2 pound.

The origins of the dollar's weakness lie in Mr Reagan's budgetary profligacy — which now contrasts strikingly with Mrs Thatcher's careful housekeeping. I shall argue that unless corrected, the US budget deficit will produce higher interest rates, inflation and recession in the world's major economy, sparked off by a so-called hard landing for the dollar.

The budget deficit has generated a balance of payments deficit which is eroding confidence in the dollar for the simple reason that nobody lends willingly to those who show no signs of ever being able to repay.

America has been overspending since 1982 and its current account deficit has since 1984 amounted to over 50 per cent of its overseas earnings. At first this massive outflow was financed by selling off assets but since mid-1985 the US has been running up international debt. Its creditors are now losing patience.

Confidence in the dollar can only be restored if America starts to live within its income — hence the need to reimpose fiscal discipline. Unfortunately there is little chance of this happening under a weakened President with a hostile Congress. If the budget deficit remains above the Gramm-Rudman targets, the financial markets will eventually impose their own, much tougher, curbs on American spending.

Any English economist, who has seen it all too often before, can fill in the details. People will become increasingly unwilling to lend in dollars (because of the risk of repayment in devalued coin). By contrast even those whose business is not conducted in dollars will wish to borrow them for just the same reason.

Because the dollar is an international currency, the world imbalance between lenders and borrowers will drive up dollar interest rates whatever happens on the US financial markets. Similarly those with dollar receivables will increasingly seek to sell them forward, driving down the forward exchange rate and raising Eurodollar interest rates.

Up to now the decline in the dollar has been orderly — a "soft landing", talked down by the US authorities and guided by interest rates below the world average. The dollar, which had been massively overvalued, has now reached purchasing power parity against other currencies.

However, it is still falling despite official protestations that it has fallen "absolutely and fundamentally" far enough, and despite rising interest rates. Those are the hall marks of a "hard landing".

The issue is no longer what level of the dollar is required for long-term trade equilibrium. It is how far the dollar must fall to persuade market operators that the next likely move is *upwards*.

"Only then will they stop seeking the dollar loans, and selling the currency forward.

Long before this point is reached, however, interest rates, which are the other mechanism for bringing lending and borrowing into balance, will have risen to a level which has a severe impact on the US economy. High US interest rates cut off real investment and encourage savings. They are a crude and painful way of bringing about the necessary cuts in US spending — crude because investment suffers more than consumption, painful because one of the routes towards lower spending passes via a wave of bankruptcies.

America has never been so heavily indebted and a sharp rise in interest rates could bring about a cumulative collapse of credit-based business activity.

The Federal Reserve is acutely aware of this danger, and will try to insulate domestic interest rates from the consequences of a progressive loss of international confidence in the dollar. For the Fed, though determinedly anti-inflationary, is also the guardian of the US banking system whose stability would be threatened by higher interest rates. But rates can only be held down by printing money, and this would surely accelerate the decline in the dollar, with serious inflationary consequences.

Inflation, cured by the tight money policies of the 1980s, is now itself the only cure in sight for the problems caused by the accompanying lax fiscal policy. For another lesson from the 1970s is that inflation, surprisingly, boosts savings.

Inflation is a tax on wealth and those who see the value of their assets being eroded save more out of current income to rebuild them. Inflation also boosts tax revenue, because most tax allowances are fixed in money terms, so the tax burden rises as inflation pushes up earnings.

High interest rates, recession and a wave of bankruptcies to cut back investment; inflation to boost public and private saving: these essentially are the remedies that the financial markets will impose if the US authorities fail to cut their budget deficit. Central to this scenario is a further decline in the dollar which will push interest rates and inflation upwards despite the authorities' attempts to stop them rising.

A *large* devaluation will be needed, on this way of looking at things, to generate *enough* inflation to call forth sufficient extra savings (a falling currency generates less inflation in the relatively self-sufficient US than in the smaller and more trade-dependent European economies).

The dollar has so far fallen by an average of 50 per cent against oher currencies since its early 1985 peak (far more against the D-Mark and yen). As President Reagan once said "You ain't seen nothing yet."

The author is Director of the Institute for Fiscal Studies and former editor of the London Business School Exchange Rate Outlook.

CONTRACTS

Supplying landing gear for the Airbus

DOWTY ROTOL, second only to British Aerospace as the largest UK supplier to the Airbus Industrie A320 programme, has received orders in excess of 100 aircraft sets of landing gear for the A320. Together with orders for ram air turbines and other ancillary equipment, Dowty Rotol's total A320 order value exceeds £25m. Dowty Rotol has design leadership for the main landing gear for the A320 which is manufactured in collaboration with Messier-Hispano-Bugatti. Three versions of the A320 landing gear are to be supplied; the first is the 66 tonne twin-wheel gear for which nine aircraft sets have been delivered to date. Work is on programme for the two increased weight 72 tonne gears available as twin or four-wheel bogie versions. The first production unit of the 72 tonne twin is scheduled for January 1988 and the first prototype 72 tonne bogie gear to follow in March 1988.

★

JAMES LONGLEY has won contracts worth £2.7m for projects in Crawley, Horley, Haywards Heath, East Grinstead and Worth. Two involve reconstruction and repairs following fires. APV International's Crawley offices, which Longley built 20 years ago, suffered fire and smoke damage to its computer suite and three other floors. The roof of St Nicholas at Worth, one of England's oldest churches, was ruined by fire and is to undergo restoration. In the same locality Longley is building a sports hall for Worth Abbey School.

For the Multiple Sclerosis Society the company is undertaking a £1.2m residential care home scheme which will provide accommodation for 28 guests of residents of the Horley Respite Hotel.

At East Grinstead the contract involves construction of an unusual pavilion-style group practice surgery for six doctors with a glazed atrium and planted courtyard as the central feature. Under a design-and-build contract office refurbishment of Harland House for Keswick Holdings has begun at Haywards Heath.

★

HENRY BOOT has won contracts worth more than £7.5m Heading the list is an order from ICL for a distribution depot worth over £5m in Stevenage, Herts. The 69-week contract will involve a single-storey high-bay warehouse, two-storey transfer link to a single-storey operation building with an adjacent two-storey reception area. A 20-month contract for external refurbishment of four-storey flats in St Albans has also been awarded to Henry Boot by St Albans City and District Council. Work on the £1.2m project is to start shortly.

Amec Projects has placed an £820,000 contract for the 25-week construction of a substructure package including pad foundation, retaining wall and service duct for a Halifax Building Society data centre in Copley, West Yorkshire.

New car showrooms, parts department and offices are to be constructed in Sheffield for BMW main agents, Hallamshire Motors. The 26 week £550,000 contract will be completed in November.

★

FAIRCLOUGH SCOTLAND has been appointed main contractor for phase one of a scheme to deepen part of the South Bay to Peterhead Harbours in Aberdeenshire. On a £2.1m contract from Peterhead Harbour Trustees, the Renfrew company is to manage and control an underwater blasting programme aimed at lowering the rock seabed to make parts of the bay suitable for construction of a new fishing harbour. Blasting operations will be carried in joint venture with Fairclough by specialist Vesi-Pekka Oy, part of Finland's Haka group. Vesi-Pekka Oy will also remove the broken rock with a backhoe rock dredger. Consulting engineers Wallace Stone and Partners say that some 150,000 tonnes of mostly bedrock is likely to be removed in this phase, deepening the water level from the existing seabed to a maximum of eight metres at lowest tide. The project is programmed for completion towards the end of 1987. Fairclough Scotland is a member of the AMEC construction and engineering group.

Company Notices

BRAZILIAN STERLING LOANS:
DECREE LAW NO. 6019
STATE OF PERNAMBUCO
5% LOAN 1905

NOTICE IS HEREBY GIVEN that for the Sinking Fund of the above loan for July 1987 bonds for a nominal amount of £9,800 have been drawn for redemption.

The following are the numbers of the bonds drawn for redemption at par on 1st July 1987, after which date all interest thereon will cease.

STATE OF PERNAMBUCO 5% 1905
490 BONDS OF £20 NOMINAL VALUE = £9,800

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

The above bonds should be presented for payment to Lloyds Bank Plc, Branches Stock Office, Coupon Department, 111 Old Broad Street, London EC2N 1AU, listed on the appropriate forms and must bear all coupons subsequent to 1st July 1987 otherwise the amount of the missing coupons will be deducted from the principal money.

BANQUE NATIONALE DE PARIS

Floating Rate Note Issue of US$225 million June 1981/96

The rate of interest applicable for the period beginning 15 June 87 and set by the reference agent is 7 11/16% annually.

CLAL FINANCE N.V.

US$12,000,000 Guaranteed Floating Rate Notes 1990

The interest rate applicable to the above Notes in respect of the initial interest period commencing 15th June 1987 will be 8 7/16% per annum.

The interest amounting to US$422.55 per $10,000 principal amount of the Notes will be paid on 15th December 1987 against presentation of Coupon No. 4.

BANK LEUMI (UK) PLC
Principal Paying Agent

DIMOSIA EPIHIRISIS ELEKTRISMOU
(Public Power Corporation)
ECU Denominated Floating Rate Notes due 1997

Notice is hereby given that for the interest period commencing on June 19th, 1987 the Notes will bear interest at the rate of 7 5/16% per annum. The interest payable on September 21st, 1987 against coupon No. 4 will be ECU18.4409 per ECU1,000 nominal.

Fiscal Agent
ORION ROYAL BANK LTD

Legal Notices

IN THE MATTER OF MAMMOET CONTRACTING AND TRADING COMPANY LIMITED AND IN THE MATTER OF THE CYPRUS COMPANIES LAW CAP 113

NOTICE IS HEREBY GIVEN that the creditors of the above named Company which is being voluntarily wound up, are required, on or before the 16th day of July 1987, to send in their full names, their addresses and descriptions, full particulars of their debts or claims, and the names and addresses of their Solicitors (if any) to the undersigned Mr Anthony Hajiroussos FCCA of Julia House, 3 Them. Dervis Street, PO Box 1612, Nicosia, Cyprus the Liquidator of the said Company, and if so required by notice in writing from the said Liquidator, are, personally or by their Solicitors, to come in and prove their debts or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

DATED this 16th day of June 1987

A. HAJIROUSSOS, FCCA
Liquidator

TRANSATLANTIC CHEMICAL SERVICES LIMITED

We, David Miles Middleton of Cork Gully, Archbold House, Archbold Terrace, Newcastle upon Tyne, NE2 1DQ and Christopher John Hughes of Cork Gully, Shelley House, 3 Noble Street, London EC2V 7DQ, were appointed administrative receivers of TRANSATLANTIC CHEMICAL SERVICES LIMITED, Registered No. 1896129 by National Westminster Bank PLC on 29 May 1987.

Dated 5th June 1987

DAVID MILES MIDDLETON
CHRISTOPHER JOHN HUGHES
Joint Administrative Receivers

NOTE: Trading name if different from above: Chemtech, Transchem.

SDP puts off merger talks with Liberals

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

THE LEADERSHIP of the Social Democratic Party (SDP) last night postponed the inevitable debate on the need for a merger with the Liberal Party, making it clear that it did not intend to be pushed into any early decisions by its Alliance partner.

In a decision which does not seem to augur well for the future relationship between the two parties, the SDP has, however, decided to end the system of joint spokesmen which the Alliance operated during the recent general election campaign.

The move emerged after a meeting of the SDP's national committee met in London. This was held 24 hours after the weekend call from Mr David Steel, the Liberal leader, for a "democratic fusion" of the two parties. Afterwards, Mrs Shirley Williams, the SDP president, said a number of options would be discussed on June 29.

The two-week delay in discussing merger prospects is also intended to give SDP leaders more time to formulate a common approach to the possibility of some form of full union with the Liberals and to avoid a potentially damaging split within their own ranks over the issue.

Dr David Owen, the SDP leader, who has extensive objections to seeing his party lose its independence, yesterday declined to make any comment on the merger issue.

But Mr John Cartwright, one of the party's five remaining MPs, accused Mr Steel of appearing to try to force a "shotgun marriage" between the two parties.

He added: "There is a feeling growing that, if we get a merger, all the problems will be solved. I am suspicious of these instant, magical solutions to our difficulties."

Other leading figures in the party, including original "gang of four members" Mr Roy Jenkins, the former MP for Glasgow Hillhead, and Mrs Williams, who failed to win Cambridge, support the principle of an SDP-Liberal merger.

David Steel: plea for democratic fusion

After yesterday's national committee meeting, which did not discuss the merits of a merger but which included a lengthy inquest on the Alliance election campaign, Mrs Williams said strong feelings had been expressed that the calls for a merger made by Mr Steel and Mr Paddy Ashdown, the Liberal MP for Yeovil, had brought too much pressure to bear.

There was, she said, an attempt to "push the party faster than it should be pushed." She hoped any proposals would go to the annual conference and that the result of a ballot would be known by the end of October.

Mr Steel emphasised yesterday that he had spoken out because he knew the SDP leadership was due to meet, and he felt it was courteous to make his views known.

Liberal party officers will discuss Mr Steel's merger memorandum today, and the parliamentary party will consider it tomorrow.

BAA PATHFINDER PROSPECTUS OUT NEXT WEEK

Airports authority to be floated

BY LYNTON McLAIN

BAA, formerly the British Airports Authority, is to come to the London stock market with a flotation of shares in the middle of next month. The company owns and operates seven UK airports, including Heathrow and Gatwick, which serve London.

The sale is the latest in the Government's privatisation programme and is the first to be given the go-ahead since the general election last week. The only other privatisation proposals in the Conservative manifesto were the water authorities and the electricity industry.

The pathfinder prospectus for the sale of shares in BAA is to be published next Monday, Mr Paul Channon, Transport Secretary, announced yesterday, his first day in his new post.

Sir Norman Payne, the chairman of BAA, published the latest BAA annual report and accounts, for 1986-87, yesterday. The two announcements reflect the Government's desire to get on with the privatisation of the airports immediately, with a view to a public sale of shares before the August holiday season.

The company made a pre-tax profit of £124m in the year to the end of March, a rise of £2m over 1985–86. Revenue was up nearly 11 per cent to £439m while expenditure rose sharply by 15 per cent to £308m. The operating profit was little changed at £131m compared with £129m in the previous financial year while the tax charge rose steeply by over 22 per cent to £44m.

BAA's capital expenditure for the year was £153m, the same as for the previous year.

Sir Norman said: "I think the company has performed well in the last year. It is a creditable performance and one that I think should command the interest of potential investors."

The seven BAA airports at Heathrow, Gatwick, Stansted, Glasgow, Prestwick, Edinburgh and Aberdeen handled a total of 55m passengers in the year to the end of March, up just under 4 per cent on the previous year.

Sir Norman said BAA would be a "wider share ownership stock," but there woulds be no perks to encourage small investors, other than a loyalty bonus for investors holding shares for three years.

Sell-offs timetable, Page 12;
Lex, Page 24

Dikko wins right to stay for time being

BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT

MR UMARU DIKKO, a former Nigerian Transport Minister who narrowly escaped being returned to Nigeria in a crate during an abortive kidnap attempt in London in 1984, was yesterday granted the right to stay in Britain for a limited period.

An immigration tribunal reversed a decision by Mr Leon Brittan, the former Home Secretary, to refuse asylum to the 51-year-old Mr Dikko, who is wanted on corruption charges in Nigeria, and granted him refugee status until December 31 this year, or until extradition proceedings are concluded, whichever is earlier.

The Home Office said it was considering an appeal against yesterday's decision, which is not connected with the extradition proceedings, due to start soon.

Mr Mark Patey, the tribunal's chief adjudicator, said that Mr Dikko would have had "a well founded fear of persecution on the grounds of his political opinions had he been required to return to Nigeria in June 1985. "Mr Philip Trussler, the Home Office lawyer, told the tribunal that Mr Dikko feared prosecution rather than persecution."

Mr Patey said it was not his task to assess whether Mr Dikko was innocent or guilty of the charges brought against him.

The chief adjudicator said the evidence provided by extracts from newspapers circulation in Nigeria, showed that Mr Dikko was considered, rightly or wrongly, by the former Buhari government, which was subsequently ousted in 1985, as plotting to overthrow it.

"I must find that the appellant had cause to believe that the Nigerian Government of General Buhari was deeply implicated in the plot to kidnap him."

Mr Dikko, who fled Nigeria after the military coup of 1984, has alleged the Nigerian Government of the day organised the kidnap plot, which was discovered when he was found drugged and tied up in a crate at Stansted airport.

UK NEWS

Retail sales 'fell sharply in May'

By Ralph Atkins and Lisa Wood

RETAIL SALES fell sharply in May after a large rise in April, according to the latest official figures.

The Department of Trade and Industry's provisional estimate for May shows retail sales falling 3.3 per cent. City of London economists had predicted a fall of about 1 per cent.

The drop is explained partly by bad weather in May, but its size has baffled economists because personal incomes are rising strongly. Towards the end of May incomes were further boosted by the income tax cuts announced in the budget.

In April the volume of retail sales rose by 3.6 per cent, helped by extended shop opening hours at Easter and good weather. The rise was larger than expected, and May's figures could reflect a temporary pause.

The index of retail sales has moved erratically since the beginning of the year. However, the department's figures show that the trend is still upwards.

In the three months to May the volume of sales was 1 per cent higher than the previous three months and 5.5 per cent higher than the same three months last year.

The index of retail sales now stands at 125.7 (1980=100) compared with 130.0 in April.

The sales index for May contrasts with a more optimistic picture painted by the latest Confederation of British Industry/Financial Times survey of distributive trades published yesterday. This reported higher sales compared with the same month in 1986 although the increase was not as great as retailers had initially expected.

The Retail Consortium, representing the bulk of Britain's retailers, described the May figures as "disappointing," given the fall in income tax and mortgage rates. The consortium said major retailers had expressed concern on publication of the figures.

Mr Richard Weir, director of the consortium, said: "The question is whether this is a blip or a trend. My hunch is that it is a blip."

He said possible explanations for May's figures could include uncertainty over the outcome of the general election

CBI/FT survey, Page 14

Janet Bush outlines the Government's privatisation timetable

Thatcher to continue state sell-offs

THE THATCHER Government enters its third term of office as committed as ever to its programme of returning state-owned industries to the private sector.

The programme for privatisation is, however, not at all clear. The Government has clearly signalled its intention to prepare the great utilities of water and electricity for sale during the coming parliament, but the timing of these issues is far from being decided.

This is primarily because the sale of these industries will involve extremely complex legislation and quite possibly a good degree of political controversy and opposition from within the industries themselves.

It seems likely that the water authorities will be privatised before the electricity industry although no decisions have been made in what are clearly the early stages of planning.

The privatisation of water has the advantage over electricity to the extent that some hefty preparatory work had already been done last year before the decision was made to delay the sale.

The difficulties already experienced in the case of the water authorities provide some evidence of the hard work which will have to go into preparing the public utilities for sale.

They are not only far larger than any issue so far. Estimates put the water authorities' value at about £8bn, bettering the £5.6bn raised from British Gas, while the electricity industry could be worth £18bn. They also involve serious ethical and logistical questions which could hold up their eventual sale.

In the case of water, the Government's proposal that some of the regulatory functions of the 10 water authorities in England and Wales should be transferred to a publicly owned National Rivers Authority has already met with stiff opposition from the authorities themselves. As for electricity, the treatment of nuclear power stations is likely to prove an even more thorny and controversial problem.

Legislation for electricity is not likely to be ready before at least the end of 1988, and the Government believes it is unlikely that any proceeds from water will be received during 1987-88.

What seems certain, however, is that the Government faces no shortage of candidates to fulfil its £5bn target for privatisation proceeds this fiscal yeare 1987-88, as announced in the autumn statement last year.

One sale has already been completed this year. After a very difficult period of consultation and negotiation, the Royal Ordnance factories were finally sold off to British Aerospace in April for £190m.

AVAILABLE PRIVATISATION RECEIPTS IN 1987-88

		(est.) £bn
Rolls-Royce	May	0.65
	Sept	0.65
Royal Ordnance	April	0.19
British Gas	June	1.8
British Airports Authority	July	1.04
British Airways	August	0.4
British Petroleum	July onwards	6.2
British Gas loans	March 1988/ April 1988	0.25
National Bus subsidiaries	Continuous	–

In addition, the highly successful, partly paid issue of shares in Rolls-Royce brought in about £650m in May and will raise a further £650m in September when the second call falls.

Another certainty is that the British Airports Authority will be offered to the public, probably in mid-July, raising more than £1bn. The preliminary prospectus is due to be published next Monday. County Bank is acting as the Government's merchant bank advisers while Cazenove and County Securities will act as brokers.

The Government will continue its programme of selling off subsidiaries of National Bus, expected to be completed in January 1989, according to the Treasury. Last year the sale of 28 subsidiaries was completed, leaving another 43 to find buyers for.

The largest question mark for this year is the sale of the Government's remaining nearly 32 per cent stake in British Petroleum. The announcement that the Government would sell its shares this year, made late in the evening on the day after this year's budget, came as a complete surprise.

Valued on that day at about £4.8bn, the rise in BP shares since now put the stake at nearer £6.2bn, substantially more than the overall target for proceeds this year.

It therefore seems likely that the sale will be partly paid, ensuring a flow of proceeds into 1988-89 and possibly 1989-90.

No firm decisions have been made on the timing of the sale although it seems certain it will take place after the flotation of BAA. However, the Government's advisory team is in place. N. M. Rothschild will fulfil this capacity in Britain while Goldman Sachs will represent the Government's interests in the US, Daiwa in Japan, Wood Gundie in Canada and Swiss Bank Corporation in Europe.

Apart from fresh issues during the current fiscal year, the Government is assured proceeds from second calls on past flotations. The second call on British Gas earlier this month will have brought in £1.8bn,

Two to leave as BBC recasts top management

BY RAYMOND SNODDY

THE BBC yesterday began a restructuring of its senior management with the announcement that two members of the corporation's board of management would leave in August.

Mr Alan Protheroe, assistant director-general, who has worked for the corporation for 30 years, and Mr Brian Wenham, managing director of BBC radio, who has been at the corporation for 18 years, are both departing.

Mr Protheroe, a former head of BBC television news who has been assistant director-general since 1982, has rarely been far from controversy in the past few years. His job meant he was intimately involved with all the BBC's recent political difficulties.

Mr Protheroe, who is 53, said yesterday he was leaving the BBC "grateful for the privilege of having led its journalism over the past five years."

His job effectively disappeared when Mr Michael Checkland, the BBC director-general, recruited Mr John Birt from London Weekend Television as deputy director-general with the brief to unite BBC news and current affairs across both radio and television.

The Birt plan and other proposed istructural changes removed the heart from Mr Wenham's job as managing director of BBC radio.

When the present moves are complete, it will give Mr Checkland a substantially new top team to meet the challenge of living with a licence fee linked to the retail price index.

Royal Bank to launch desktop banking service

BY ALAN CANE

THE ROYAL Bank of Scotland yesterday unveiled its version of desktop banking (electronic cash management). It was almost the last of the major UK clearing banks to do so.

It claimed, however, that in taking time over development it was now able to offer a superior product which could have a technological lead of up to a year over its competitors.

Cash management services were devised in the US where they enabled corporate treasurers to keep tracks of the balances in their accounts and move cash from one account to another.

They were introduced to the UK in the early 1980s by big US banks such as Citicorp, Morgan Guarantee and Chase Manhattan. The British clearing banks were forced to follow suit, usually using US-designed systems, to maintain a competitive position.

The Royal Bank of Scotland (RBS) offering Royline makes it easy for a corporate treasurer to learn the balance of his various accounts, his forward position and the balances of his money market accounts, foreign currency accounts and – within limits – balances held with other banks.

He can transfer funds and pay bills either within RBS or through other banks using Chaps, the clearing banks' automated same-day clearing service, or Swift, the worldwide bank messaging system.

According to RBS, the service is suited to very small businesses, who traditionally have found cash management services too expensive.

Notice of Redemption

Sunkist Overseas Finance, N.V.

10⅞% Guaranteed Notes Due 1990

*Cusip No. 867365 AA

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of the Fiscal Agency agreement, dated as of July 15, 1983 between Sunkist Growers, Inc., (the "Company") and Citibank, N.A., (the "Fiscal Agent"), under which the above described Notes were issued; $8,000,000 aggregate principal amount of said Notes will be redeemed through the operation of the mandatory and optional Sinking Fund provisions on July 15, 1987 (the "Redemption Date") at the redemption price of 100% of the principal amount thereof together with accrued interest to the date of redemption.

COUPON DEBENTURES OF $1,000 PRINCIPAL AMOUNT

The Notes specified above are to be redeemed at Citibank, N.A., Corporate Trust Services, 111 Wall Street, 5th Floor, New York, New York 10043 and the main offices of Citibank, N.A., in Amsterdam (The Netherlands); Brussels (Belgium); Frankfurt/Main (West Germany); London (England); Luxembourg (Luxembourg); Paris (France); Zurich (Switzerland); or Banque Internationale à Luxembourg (Luxembourg).

On the Redemption Date, the Notes shall become due and payable upon presentation and surrender thereof with all interest coupons maturing subsequent to the redemption date.

Coupons due July 15, 1987 should be detached and presented in the usual manner.

On and after July 15, 1987, interest shall cease to accrue on the Notes.

SUNKIST OVERSEAS FINANCE, N.V.

By: CITIBANK, N.A., Trustee

Dated: June 9, 1987

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Japan to import machine tools from Yamazaki

BY NICK GARNETT

YAMAZAKI will export back to Japan some of the machine tools it makes at its new plant at Worcester in the west Midlands, Mr Teruyuki Yamazaki, the company's president, said yesterday.

He also said that the company would build a technological development centre on the site. This would involve some technology transfer with European companies and incorporate work in new materials and electronics as well as machine tools.

Mr Yamazaki was opening what will become the company's European manufacturing centre, representing a total investment of £35m of which £5.2m has been provided through various forms of government assistance.

There are now 55 Japanese manufacturing companies with some form of production presence in the UK, employing 13,000 people.

The Worcester plant, which comes on stream this year, is building at the rate of 35 machines a month. When it comes into full production within the next 18 months, it will have the capacity to build up to 1,200 lathes and machine centres a year.

This is equivalent to a half by volume of the computer numerically controlled machine tools that the UK industry has been building in recent years.

Yamazaki says it will export 80 per cent of production from Worcester. Most of these exports will go to mainland Europe. However, Mr Yamazaki said Worcester would also export to the US – where the company already has a manufacturing facility in Kentucky – and to Japan.

He also indicated that Worcester would become the worldwide source of some of Yamazaki's machines. It was the company's policy, he said, not to duplicate machine tool sourcing wherever that could be avoided.

Machines so far built at Worcester have been assembled from kits. The intention is to move to 60 per cent EC content, measured in the broad definition including labour costs, by the end of this year.

The company has already begun sourcing castings locally and by the end of the year will be using European-made hydraulics.

The arrival of Yamazaki as a machine tool builder in Europe has worried European lathe and machining centre manufacturers. The Japanese company's production targets imply that they intend to increase their market share in the UK and the rest of Europe very substantially.

CBI/FT SURVEY OF DISTRIBUTIVE TRADES

Retail sales rise less than expected

BY RALPH ATKINS

BRITISH RETAIL sales were stronger in May than in April, but the improvement was not as great as expected.

The pattern of sales in May and April was distorted by the late Easter, bank holidays and, more recently, by bad weather, according to the Confederation of British Industry/Financial Times survey of distributive trades.

However, retailers are optimistic about sales improving in June. Out of 304 retailers questioned, 63 per cent thought their June sales would be higher than in the same month last year.

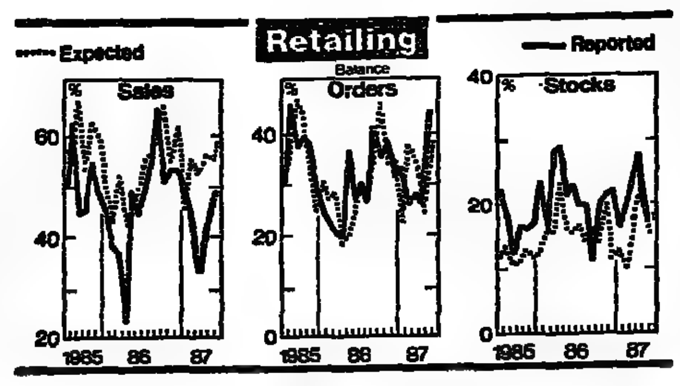
"More retailers expect sales increases in June, compared with last year's level than at any time since January," said Mr Nigel Whittaker, chairman of the survey panel.

In May 60 per cent of retailers said sales had increased and 11 per cent reported falls. Shoe, clothes and grocers shops were most positive about sales in June.

In April retail sales picked up after six relatively flat months. The Department of Trade and Industry's index of retail sales rose 3.6 per cent in April – helped by buoyant Easter sales and continuing growth in real personal incomes. But yesterday's retail sales figures are a setback.

In the next few months sales could be boosted by the effect of tax cuts announced in the budget and falling interest rates.

The survey found that strong sales appeared to be creating more jobs. It also reported an increased number of distributors spending more on investment in May than in the same month last year.



For wholesalers, sales increased in May in line with expectations – but at a slower rate than in April. A similar rate of growth is expected in June. Most positive were builders merchants and food and drink wholesalers.

"Wholesalers and motor traders – whose sales continue to grow after a record first quarter – are also taking on more staff as their sales continue to exceed last year's levels," said Mr Whittaker.

The balance of wholesalers reporting an increase in the number they employed in May compared with a year ago, minus those who reported a fall, was +42 per cent. This compares with a balance of +17 per cent when the question was last asked in February.

In retailing a balance of +44 per cent reported an increase in the number employed against +23 per cent in February. A balance of +45 per cent expect employment to increase in August.

When asked about investment intentions, 40 per cent of retailers and 44 per cent of wholesalers expected to authorise more investment expenditure in the next year than in the last 12 months.

The survey shows the growth in volume of retail, wholesale and motor sales accounted for by imports diminished in May. The fall follows drops in imported penetration reported in the last two quarterly surveys.

The increase in orders placed by both retailers and wholesalers in May compared with a year before was greater than expected. The balance of retailers ordering more than a year ago rose to +43 per cent – the highest since August 1985.

Among motor traders, sales rose faster in the year to May than anticipated but slower than in the 12 months to April. A balance of +33 per cent expect an increase in sales in June.

Motor traders also expect to increase investment in the next year. A balance of +21 per cent anticipate spending more on capital expenditure – the most positive response for three years.

The number employed by motor dealers grew faster than expected in May. A balance of +19 per cent expect further increases in the year to June.

● Renault UK yesterday increased its car van prices by an average of 2.5 per cent, John Griffiths writes.

It attributed the increase to improved product specification and increased production costs, rather than to adverse exchange rate movements.

The latter has obliged West German and Japanese importers to impose a series of price increases during the past 12 months.

Examples of Renault's new prices, including all taxes (old price in brackets): Renault 5 TC 4-speed £4,640 (£4,540), 21 TS £7,540 (£7,350), 25 GTX £12,690 (£12,250).

Motor industry's trade deficit improves in first quarter

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

IT IS too early to judge whether a significant improvement in the UK motor industry's trade deficit in the first quarter this year means that the steady decline in the automotive trade balance experienced since 1981 has levelled off or has been reversed, says the Society of Motor Manufacturers and Traders.

In the first quarter exports improved by 19 per cent to £1.474bn compared with the same period last year. Imports, at £2.343bn, rose by only 6 per cent, according to the society's analysis of Customs and Excise statistics.

An important sector to miss the improving trend in the first three months was parts and accessories which was in surplus until last year. This year the trade deficit worsened by £120.4m, or nearly 400 per cent, to £150.7m.

Mr Peter Caldwell, the society's senior economist, points out that imports of parts and accessories have benefited from the growth of foreign cars in use in the UK. It is estimated that more than 48 per cent of the cars on the roads in Britain were built outside the country.

The only sector to continue to show a surplus of exports over imports was "other motor industry products" which includes agricultural tractors, dumpers, dump trucks, trailers, semi-trailers, caravans, industrial works trucks and tractors and their parts and freight containers.

Car exports increased in the first three months by 6 per cent in volume, from 57,368 units to 60,928, but the value was up by 57 per cent to £450.1m.

This mainly reflects the fact that high-priced Jaguars and Rover Sterling models replaced low-cost Peugeot Talbot car kits for Iran in the quarter.

Car imports were down by 18 per cent in volume to 231,795 as Ford and General Motors, the Vauxhall group, filled more demand from their British factories. However, the value of imports fell only slightly, by 3 per cent to £1.16bn.

Mr Caldwell says the average value of each imported car increased by 18 per cent in the first quarter and that some of the rise reflects increased prices paid by importers because of the pound's depreciation against other currencies.

Exports of commercial vehicles up to 3 tonnes gross weight rose by 2 per cent to 5,372 units, but the value increased by only 1 percent to £18.6m. Imports of these vehicles fell by 19 per cent to 17,711 units.

Heavy commercial vehicle exports fell by 1 per cent to 5,881 units, and the value was sharply down, by 26 per cent to £56.9m. Imports were also well down, by 21 per cent in volume to 8,606 units and by 6 per cent in value to £139m.

UK TRADE IN MOTOR INDUSTRY

	First quarter (£m) 1986	1987
Exports		
Cars	285.9	450.1
CVs* up to 3 tonnes gross weight	18.4	18.6
Other commercial vehicles	77.4	56.9
Parts & accessories	654.0	724.8
Other products	204.1	223.3
Imports		
Cars	1,206.5	1,165.8
CVs up to 3 tonnes	77.0	73.0
Other commercial vehicles	149.0	139.0
Parts & accessories	684.3	877.5
Other products	102.5	87.6
Trade balance		
Cars	(−920.6)	(−715.5)
CVs up to 3 tonnes	(− 58.6)	(− 54.4)
Other CVs	(− 71.6)	(− 82.1)
Parts & accessories	(− 30.3)	(−150.7)
Other products	101.6	135.7
Total	(−979)	(−869)

* Commercial vehicles

Source: Society of Motor Manufacturers and Traders

BELGIAN CHEMICAL INDUSTRY

Tony Jackson on the Belgian chemical group's ambitious strategy

Solvay aims for the big league

BARON DANIEL Janssen, chairman of Solvay, is not happy with the Financial Times's coverage of his company. Not that it is inaccurate, he says. There is just not enough of it, and it is not in the right place. Surely the results of Belgium's second largest company—and one of the world's big chemical groups—deserves the front page?

Being told this in person is an arresting experience, since the baron is 6 feet 5 inches, with a formidable Belgian moustache and an air of command. He is also a great, great grandson of Ernest Solvay, who founded the company 124 years ago. He therefore speaks with the authority of the 4,00 strong Solvay clan, which still has a controlling stake in the company.

He was in London recently as part of a road show taking in Frankfurt, Paris and Brussels, aimed at raising and improving the company's image with investors. And indeed, Solvay is an odder and more interesting company than it is sometimes given credit for.

The foundation of the business was the Solvay process for making one particularly basic chemical, soda ash. The process, painstakingly developed by the brothers Ernest and Alfred Solvay in the 1860s, still stands as a landmark in the chemical industry, and proved so superior to the older Leblanc process that it drove the competition out of business.

Solvay is still the world's biggest maker of soda ash, and is also the world's biggest salt producer and Europe's biggest maker of chlorine. In an industry which tends to emphasise the move from commodity chemicals to specialities with high added value, Solvay is the bulk producer *par excellence*.

Not that the Baron would agree. "We don't live with that separation between so-called bulk and specialities — bulk is a word I never use. The group has always stressed the idea of having products with high margins. When my great, great-grandfather discovered the soda ash process, that was a high-margin product. And we prefer high margins on high volume, which, after all is better than high margins on low volume.

The example set by Ernest Solvay is still of primary importance. "There have been two major points of strategy for Solvay in the past 124 years. First to be a high-tech company, using our own processes. And second, we always aim to be among the top three to five by size in our products in the world."

Take, for instance, the bulk plastic polypropylene, where Solvay is still a relatively small player. "We started in 1976, with our own process. At the beginning it was hard but since last year we're not only earning, we believe we're getting really good technically. We have two major plants—one in France, one in Texas—and we're de-bottlenecking to increase capacity. Our objective is certainly to move up the ranking."

The history of producing commodity chemicals not worth transporting long distances has one particular advantage. "We have a historical tradition of producing in the countries where we sell. That was true of Ernest Solvay, who had the idea of producing all over Europe, in Russia, in the US—which in 1863 was quite an achievement."

As a result, the group claims to be unusually shielded from the currency fluctuations which have a powerful effect on rivals such as Imperial Chemical Industries of the UK and the German chemical industry. "We have lots of plants in France and Italy—all about 100 years old—and in Spain, Portugal, Switzerland, Austria and so on. Belgium is a very small country for us in production terms.

"So when currencies fluctuate in a large way, we are less influenced than the Germans exporting from Germany, the Swiss from Switzerland and so on. As for chemicals which are denominated in D-Marks, the Belgian franc has moved together with the D-Mark in the past three or four years. And if the D-Mark is strong and surrounding countries are exporting, we're in those countries too and can arrange a little in the way of exports ourselves."

'When my great great-grandfather discovered the soda ash process, that was a high-margin product. And we prefer high margins on high volume which after all is better than high margins on low volume'—Baron Daniel Janssen (left)

Not that the baron would have it thought that Solvay is merely a European company: "We were pushed out of the US in 1922, but we started again in 1973.

"Our business there is growing very remarkably. We're big in high density polyethylene, polypropylene and hydrogen peroxide, and in human and animal health. Last year, we had much better US profits, and in this year's first quarter they were much better again. And since we had losses from 1973 to 1980 when we were establishing ourselves, we don't pay taxes—it all comes straight through."

One ambitious step was the $120m acquisition of Reid-Rowell of the US, a pharmaceutical company, in April last year. Solvay had already built up a position in drugs through two European subsidiaries, Duphar and Kali-Chemie, but sold only through licensees in the US, having the familiar European problem of having no US distribution network.

"We decided that was something we badly needed, so we bought Reid-Rowell. That took us from no medical representatives to 120, and we now have 150. The company already had $36m sales of its own products, mostly ethical pharmaceuticals, and they were strong in the gastro-intestinal field. That's one of our four important areas—the others are the central nervous system, cardiovascular drugs and immunology. So there was a very important link."

The company has also had its fingers burned in the US, through its 25 per cent stake in a huge ethylene cracker at Corpus Christi, Texas. "We decided to set it up in 1976, it started in 1980, it began with huge losses and carried on that way." So, along with other stakeholders such as ICI, Solvay this year sold out to Sterling, the acquisitive US buyout group specialising in commodity petrochemicals.

The baron, however, represents that as an aberration: "We're not petrochemical producers, we're plastics producers." And of other things, provided they put Solvay in the big league.

"We've always had that tradition, and we hope to do it in polypropylene and healthcare as we did with our other products. We pick our products very carefully, and we're not interested in being little players."

WEST GERMAN MACHINE TOOLS

Nick Garnett on the turnround at the German machine tool group

Gildemeister savours its recovery

GILDEMEISTER, West Germany's biggest machine tool company in terms of sales, has just announced a profit for the second year running.

On the face of it that hardly seems worth much comment. For one thing a return of DM 23.5m ($12.5m) on sales of more than DM 700m is not going to set the world alight.

For another, virtually the whole of the powerful West German machine tool industry—the second biggest after Japan with 17.7 per cent of world sales in 1986 measured in dollars—has been in the black since the recent recession of the early 1980s.

But other machine building companies have looked on with interest at Gildemeister's development because the group has long been the problem child among Germany's much vaunted cutting and metal forming machine makers.

A mini-grouping of near-autonomous divisions with its strength in turning machines and factory systems, Gildemeister had not been out of the red for more than 10 years until it squeezed out a pre-tax profit of DM 5.3m in 1985.

By the early 1980s, when the market for its multi-spindle lathes had virtually collapsed and the Japanese were piling into the West German market, Gildemeister lacked the reserves to cope with the world recession.

It added to its own headaches in 1983 by purchasing Pittler, a loss-making West German competitor which it decided to sell again in 1985. As problems mounted Litton Industries of the US was asked to take a stake (14 per cent) to provide some ready cash.

By 1984 the position had got so bad that Westdeutsche Landesbank, which has 17 per cent of Gildemeister's equity, felt obliged to write off DM 60m of the company's debt and call in an outside consultant to find out what was going wrong.

That is why Mr Axel Kemna, Gildemeister's president, takes a lot of satisfaction when he tells visitors that while the company is still not in the shape it should be, it is now on a profit track from which it will not diverge.

"It has been a big turnround, there is no doubt about that," says Mr Kemna, who joined Gildemeister from Deautsche Babcock, the power engineering group, in March last year. "I do not think people believed we would do it so quickly."

As a German machine tool company Gildemeister is unusual. Like most of the family run businesses that fill the country's machine tool sector, Gildemeister has been a quoted company for a decade and a half.

Unusually, too, it has grown by acquisition. Its divisions include Max Muller, a lathe maker purchased in 1971, Witzig and Frank-Martin making rotary transfer machines and Gildemeister and Knoll which manufactures deep hole boring machines. It also has a 24 per cent interest (recently reduced from 50 per cent) in Heidenreich and Harbeck, which makes Japanese-designed Makino machining centres.

Long the problem child within the West German machine tool industry, Gildemeister's ability in recent years to climb out of the red has been followed closely by rival companies. But can Mr Axel Kemna (left) Gildemeister's president, continue to surmount the pressure caused by weak demand, given the poor outlook for order inflow?

Gildemeister is almost the only European machine tool company that makes its own computer numerical controls and is one of the few machine tool builders offering turnkey project managemet for integrated manufacturing.

Projecta, its turnkey division, which among other work has completed an integrated factory for making machine tools in Bulgaria, accounted for 43 per cent of group sales last year as against 25 per cent in 1984.

Mr Kemna says the boom in West German manufacturing during the past three years has helped the company but Gildemeister has also been doing a lot internally.

New products have come in thick and fast, with a big emphasis on first single spindle then multi-axis CNC lathes. The workforce has been cut to 2,000 (with 500 or more in partnership companies) from 3,000 at the end of the 1970s. Production has been reorganised and component machining is being concentrated on three sites.

Partly as a result of these changes and the strength of the domestic market, sales per employee have risen from DM 122,000 three years ago to around D M195,000. Investment, excludin gresearch and development rose from DM 8m in 1985 to DM 19m last year and will be DM 40m this year. The group generated a cash flow over the past two years of DM 65m.

Mr Kemna says the policy of the company will remain largely unchanged. Gildemeister will continue to make its own controls and will remain both a volume machine producer and a supplier of tailored systems.

It will keep its decentralised structure and will not go for expansion for its own sake as it did during the 1970s. That did not rule out acquisitions "*but our philosophy is profit* before turnover," Mr Kemna adds.

Sales are expected to be down to around DM 650m this year, largely because fees for Projecta whose turnover can fluctuate widely will be lower. Mr Kemna says unit sales of machines (just over 1,000 in 1986) will be about the same but revenue from machine sales will be about 5 per cent higher than last year. In the long term the company expects Projecta to continue to provide around 40 per cent of revenue.

Mr Kemna is the first to concede that Gildmeister has a lot yet to do. "Our aim is to get a good, sound financial base so that we can have a half-way decent life when times are not good," he says.

The deal with Litton was to have lead to the US company manufacturrig Gildemeister machines forthe US market but that never happened. Gildemeister has now been out of the US market — which for lathes is dominated by the Japanese — for two years.

Mr Kemna says there are big opportunities in the US for Gildemeister higher specification automatic lathes which will be offered there this year and Max Muller machines from 1988.

There was still "big potential" for rationalising the group's production facilities. There was also much more work needed to raise Max Muller's efficiency while the group needed more just-in-time production, faster delivery times and more data processing.

The one cloud hanging over all this is that West German machine tool companies whose export sales and margins have been hurt by the Deutschmark's exchange rate believe that the world market for machine tools this year and next will be difficult.

Orders placed with West German machine tool builders in the first three months of this year were down by 24 per cent on the same period in 1986. No one is expecting any overall growth in the world machine tool market for the rest of the decade.

Curtain up on Act Two

Can Wozniak and Jobs repeat the success they had with Apple?

IT IS tough to repeat success. The critics will inevitably compare the second performance to the first. In the US high tech world this is especially true of the "two Steves" who founded Apple Computer. Both have seperately started new companies that are about to launch first products. How can they possibly live up to the legendary acclaim they won at Apple?

Steve Wozniak's company, Cloud Nine, unveiled its first product this month at the massive Consumer Electronics Show in Chicago. It is a programmable infra-red remote control device designed to end coffee table clutter by combining in one unit control of all your home electronics gear.

Two years in the making, "Core," for controller of remote electronics, can be used to run any consumer video or audio electronic system and can be pre-programmed to select channels, volume settings, recording times and so on. Priced at US$199, it is aimed at

"upscale" consumers, Woz's company says.

Also seeking a new fortune among the privileged set is Steve Jobs' Next Inc. Next is expected to unveil its $3,000-plus college student's workstation at a US computer conference next month. Although details remain a closely guarded secret, Jobs has said that his new computer will fulfil the dreams of students and educators for a "3m" machine—with a million bytes (characters) of storage, a million instructions per second computer power and display definition of a million pixels (picture elements).

Can either product be compared to the Apple II, designed by Wozniak, or Jobs' Macintosh? The similarity is that both represent an attempt to create new markets for a microcomputer-based device. The difference is surely that both address a relatively narrow group of potential customers who more closely resemble the Steves of today than the young men whose vision was to provide computer power for the masses eleven years ago.

Father Time v The Constitution

The American Constitution is deteriorating. While some might suggest this is the work of those who would add amendments to the Founding Fathers' work, it is in fact the march of time that is taking its toll physically on the venerable document. The Bill of Rights and the Declaration of Independence *are similarly affected.*

To keep a close eye on the ageing process Perkin-Elmer Corporation has developed a special optical system. Called the Charters Monitoring System, this will electronically record images of selected portions of the documents. Experts at the National Archives will use the system to take digital snapshots of the documents periodically and compare new images to old to determine what changes have taken place.

The ultra-precise photometer can detect changes with sensitivity five to 10 times that of the human eye, detecting *shrinkage or fading of the documents* that was previously not discernible.

Similar technology is more generally used in semiconductor chip production where the fine lines and spaces of micro-miniature circuit patterns must be measured to tolerances of less than a micron (millionth of a metre).

Cold comfort in the strawberry patch

It has been a rough haul for Advanced Genetic Science (AGS) but finally the Berkeley, California, bioengineering company has managed to demonstrate the potential of "Frostban," a genetically altered bacteria designed to prevent frost damage to fruit and vegetable crops.

Pseudomonas Syringae, to give the bacteria its scientific name, is an altered form of a protein that occurs naturally in plants. Normally, it enables damaging ice crystals to form on the surface of the plant. But with one gene removed, the substance helps plants to resist freezing temperatures.

With an estimated $1.6bn worth of food crops destroyed by frost in the US annually, the potential value of a substance that can protect plants from low temperatures is enormous.

Concerns about the consequences of releasing an "unnatural" microbe into the environment have, however, put AGS through four years of regulatory red tape and legal challenges.

Finally last month, the company was able to test Frostban

in a strawberry field in California—despite an attack by vandals who tore up the plants, and unseasonably hot weather that did not help.

Initial results are encouraging, the company says. The *bacteria reduces the likelihood* of the plants freezing by 60 per cent at 25 degrees fahrenheit. More importantly for future tests, the bacteria did not spread beyond the boundaries of the field where it was sprayed.

Next tests of the bacteria will be conducted by University of California researchers who originally identified the bacteria. Their test will take place in Tulelake, California, close to the Oregon border, where there is at least a chance of frost in the next several months.

Making marriages of business convenience

Those who would join the ranks of successful entrepreneurs, take note—a "computer dating service" designed to match new venture ideas with sources of private investment capital has been created by Michael Murphy, publisher of the California Technology Stock Letter, a widely read newsletter that follows the fortunes of some of the most promising high tech companies in the US.

The new "Venture Capital Connection" aims to bring together potential investors and entrepreneurs whose funds and business plans are too small to attract the attention of the "big boys."

"The professional venture capital business is very well organised, with big venture funds making big commitments to big new ideas," Murphy *notes,* "but professional venture capital groups usually won't even look at an entrepreneur's business plan if the required funding is less than $1m."

Venture Capital Connection is designed to fill the gap. For a $200 fee, Murphy will enter details of investor's interests, or entrepreneur's proposals, and search for a match. Already the system boasts several successful "marriages," including a company that developed a new brewing process for alcohol-free beer, which got part of its financing from a computer matched investor, and a group of individual investors which *provided six-figure financing* for a computer matched company developing machine vision components.

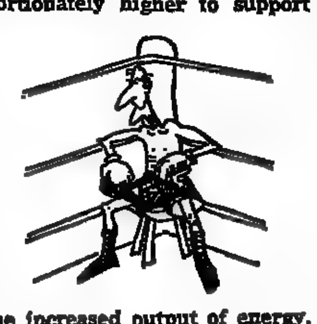
An even pace to affairs of the heart

The contribution of microelectronics technology to improving the human lot is rarely clearer than when it is applied to cardiac pacemakers. Semiconductor chips have dramatically improved the quality of life for thousands of heart patients over the past 20 years.

The latest advance in pacemaker technology, from Intermedics of Alantown, Texas, employs a high-performance microprocessor and very sensitive sensing devices to automatically adjust the heart rate to the body's changing needs.

The "Nova MR" pacemaker responds to minute changes in the temperature of the blood to slow or speed up the heart according to the level of activity of the patient. Other companies have developed adjustable pacemakers, but most of these sense vibrations in the body to turn the heart rate up or down. As a result, such devices produce step function changes in heart rate, while the Intermedics device more closely simulates natural heart rate changes by sensing the gradual increase and decrease in blood temperature.

Richard A. Gilleland, chairman and chief executive of Intermedics, explains that a patient walking up a flight of stairs, for example, will typically experience a rise in blood temperature of approximately eight-tenths of a degree fahrenheit. A minute thermistor (temperature sensor) in the lead to the pacemaker senses the temperature change and the pacemaker responds by adjusting the pacing rate proportionately higher to support



the increased output of energy. On the trip down stairs, he explains, the change in blood temperature will be significantly smaller and the Nova MR will adjust accordingly.

What this means for pacemaker patients is the freedom to lead a more active life. Current pacemakers, although programmable, can only be adjusted to provide a steady heart rate. If, for example, a patient decides to play tennis or go jogging, he or she will quickly become fatigued because the heart rate is not high enough to supply enough oxygen to the blood to support such activity.

The new pacemaker "has the potential to dramatically advance existing pacing technologies because of its real-time ability to respond to patients' cardiovasculer needs in a very customised, very patient-specific way," says Mr Gilleland. He expects the Nova MR to become commercially available this year in Europe, where trials have already begun, and in the US, where clinical trials have just been approved, by early next year.

EAGLE EYE

Japan shoots for new materials

BY PETER MARSH

JAPAN'S fledgling space industry is preparing for an important test of the country's capability to produce new materials in the low gravity of space flight.

Under the plans of the National Space Development Agency and the Ministry of International Trade and Industry, Japan will launch, in 1992, a small unmanned platform called the space flier unit. Packed with experiments, this will stay in orbit for several months.

Helping to prepare the programme for the flight is a group of about 40 Japanese companies interested in the potential of space-based processing. From a range of industries, these have put up a total of Y600m (£2.6m) to form a consortium called the Japan Space Utilisation Promotion Centre.

The members of the group include: trading companies like Marubeni and C. Itoh; electronics concerns such as Fujitsu, Matsushita Electric and Nippondenso; machinery firms including Mitsubishi Heavy Industries and Ishikawajima-Harima Heavy Industries; construction groups such as Ohbayashi, Taisei and Shimizu; and *chemicals and medical-products companies* — among them Ube Industries, Nippon *Sheet Glass and Suntory.*

Plans for the space flier unit reflect the growing industrial interest in Japan in the heavens as a place for experimenting with manufacturing techniques. The low gravity and vacuum of space flight lend themselves, so scientists think, to the production of materials difficult or impossible to make on earth.

It may be possible to turn out new types of metal alloys, the constituents of which might refuse to mix under gravity. Similarly, certain types of exotic semiconductors could be made which are difficult to produce *on earth, due to the effects* of gravity-induced convection currents in the liquids from which they are crystallised.

Extraterrestrial workshops may also ultimately turn out large protein molecules, which may be useful in drugs. These cannot be made under gravity because they collapse under their own weight.

The growing industrial interest has been matched by increased government funds for space projects. This year, the Japanese Government is spending Y121bn on space activities compared with Y102bn in 1980.

Most of the cash comes from *Nasda, which is responsible for* projects involving satellites and rockets. Miti, which is *more concerned with uses of* space for terrestrial industry, has increased its space budget from Y140m in 1980 to Y8.3bn this year.

The space flier unit, due to be launched by a Japanese H-2 rocket and retrieved by a US space shuttle, will try out some of the ideas in materials processing that could later be extended in experiments on an international manned space station.

The space station, likely to cost about $20bn, is scheduled to enter orbit in the late 1990s. The US, Western Europe, Canada and Japan are all involved in both developing and using the base.

Japan's contribution is to be a laboratory, with room for several people, that will be plugged into the main US spine of the orbiting facility. Estimated cost of the Japanese module is between Y200bn and Y300bn.

As another prelude to the space station, Japanese industry is to take part in a set of space-*based experiments largely* organised by West Germany.

In this programme, West Germany is due to hire from the US the Spacelab orbiting laboratory, a set of hardware for experiments which flies inside the cargo bay of the space shuttle.

Bit-by-bit entry to the optical store

BY GEOFFREY CHARLISH

SANSUI ELECTRIC, the Japanese company best known for its hi-fi equipment, is jointly to develop an optical disc system with US company Laser Drive of Santa Clara, California.

The system will use a similar high capacity medium to *CD-ROM (Compact Disc* Read-Only Memory), namely a 5.25 inch platter that is written and read by lasers. Unlike CD-ROMs however—which after recording are pressed like gramophone records in a factory and carry fixed data—the new system will allow progressive recording by the user until the disc *is full. The data cannot be* erased, but can be played back at any time. Each disc can hold the equivalent of 350,000 A4 typed documents.

Attachable to a wide variety of personal computers, the system is expected to cost about $3,000. Sansui will deliver the first optical and mechanical subsystems to Laser Drive in September.

Ceramic gains in superconductivity

CERAMIC SUPERCONDUCTOR developments may overtake projects that were planned with the "old" metallic alloy materials that worked at much lower temperatures. In the US, for example, some doubt must now exist about the Superconducting Super Collider (SSC), an atom smasher that will need very large numbers of superconducting magnets to achieve the magnetic fields required.

The companies, too, that make the old alloys are thinking again. Vacuumschmelze in Germany, a Siemens subsidiary, has been quick to report that it has produced samples of the new *ceramics. It insists, however,* that no marketable products will be available for five to 10 years.

MANAGEMENT: Small Business

Patents

Only the beginning of a long battle

Charles Batchelor on the inventor's principal line of defence

"A man had better have his patent infringed, or have anything happen to him in this world, short of losing all his family by influenza, than have a dispute about a patent." The Master of the Rolls. Ungar v Sugg, 1892.

Fred Hope, managing director of Hope Technical Developments, a small Berkshire-based designer of commercial vehicle equipment, might be tempted to agree with these remarks.

Hope fought a four-year patent battle with Quinton Hazell, then part of the Burmah Group, over a bumper designed to stop a car from running under the tailgate of a heavy truck in a pile-up. Both sides claim they hit upon the idea first.

"I fought it as long as I could," says an embittered Hope. "I sold off assets even though my bank and my accountant said it would be suicide to fight. When you invent something, it breaks *your heart to give in.*"

Hope says a shortage of funds finally meant he had to agree to stop making the first under-run bumper he designed. The two companies reached a stand-off over a second design which Hope is now manufacturing, but the inventor is still concerned the company could resume legal action if it wanted.

Burmah, which has since sold Quinton Hazell, rejects Hope's accounts of events, saying a settlement was reached in 1985 *because Hope's expert advisers* accepted they could not win the case and not because Hope lacked resources. The company describes as "an irrelevance" Hope's fears that legal action could be resumed.

Hope remains convinced, however, that he was the small man squeezed by a more powerful rival. "I have spent more *than £80,000 over the past 24* years patenting my ideas and I have never had this problem before," says Hope. "We have *always sat round a table and* sorted it out in the past."

Hope's difficulties are a vivid reminder to the individual inventor or the innovative small company that gaining a patent — itself a costly and time-*consuming process — may only* be the beginning of the battle.

Patents are intended to protect the idea behind a new product or process. The inventor is given a monopoly to exploit his idea for a number of years in return for publishing the details so others may work on *further refinements.*

The obstacles facing the inventor were recognised by the publication last year of the *White Paper on Intellectual* Property and Innovation which proposes a radical simplification of patent law. It seeks to move responsibility for hearing patent actions from the High Court to the Patent Office on the grounds that this would be cheaper and quicker. Not surprisingly, the lawyers have objected.

*The problems of patent pro*tection affect large companies as well as small but it is the smaller business in particular which lacks the resources to defend its creative skills. And while innovation was once seen as the preserve of the large corporation it is increasingly regarded as being a particular strength of the small firm.

Despite *horror stories* about lengthy legal battles very few patent disputes reach this stage. But there are other pit*falls for the unwary small* business attempting to protect its ideas.

The difficulties start because *many small companies* do not plan ahead or realise that patents are only a part of a broader marketing strategy.

"The small firm usually goes to a patent agent (who advises on making aplication to the Patent Office in the UK and elsewhere) when it is about to show its latest product at an exhibition," says Eric Parker, of Andrews, Byrne & Parker, patent agents and commercial invention developers. "An invention can only be patented *if it has been given no* advance publicity—so the agent is forced to act quickly.

"He will not be familiar with the background and he does not have the time to carry out a search to see if it is infringing someone else's patent. All he can do is to get the patent on file. You have at best a half-baked patent."

Mistakenly, many companies and individual inventors believe that obtaining a patent is an end in itself. "The inventor tends to be overcome by the brilliance of his invention but a patent is academic unless he can exploit the idea commercially," warns Hans Mock of patent agents Marks & Clerk.

The cost of a patent deters many small firms, particularly those which launch many new *products* in the expectation that only one or two will succeed.

The initial patent filing costs only £10 with further Patent Office charges of £155 later but a patent agent's fees will boost the total cost for a UK filing to £1,000 to £1,200. Maintaining the patent means annual fees must be paid while extending cover to other countries adds considerably to the charges.

Part of the problem is that the patent charges come at a time when a company may be *spending heavily on* developing the product anyway.

Timing a patent application can also be tricky. It usually *takes 18 months from filing* the initial application until the patent is published and another 18 months until the patent is granted. But the decision to proceed with the patent application—and *for* which other countries' patent cover will be sought—must be taken within 12 months of the initial filing.

"The problem is that many *companies may not appreciate* where their markets will be," warns Mock. "They may pay several thousand pounds to file in the EC or the US but they may be wasting their money."

Williams says he advises clients to do as much work as possible on their inventions before making an initial filing so that the clock does not start *ticking until the commercial* applications of the idea are more obvious.

Once the idea is patented *unscrupulous competitors* are likely to be less of a problem than companies which have simply hit upon the same idea at the same time. Bound up with their own work, inventors often fail to realise that other people will be *thinking along* the same lines and attempting to fill the same market gap.

Nor are all large companies *bent on squeezing the small* businessman out of his just rewards. "There are responsible large companies which will look after the small man," notes David Votier, president of the Chartered Institute of Patent *Agents. But he acknowledges* that many others will say "We'll test it in the courts."

John Williams, a patent agent, agrees that "a not negligible proportion" of cases will be disputed. If it comes to a fight with a bigger company he urges the small company to cut its losses. "You will probably lose if you get *into a battle with somebody stronger*," he warns.

One small British company has spent the past 10 years fighting an overseas group through the courts, claiming it had stolen an invention covered by patent. It claims the foreign company was quite cynical in its approach.

"The finance director came *and said*: 'We have looked at your finances and don't believe you can fight us. We will go on making this product until you stop us'," says the managing director of the British company. "I seriously doubt whether the small inventor gets any protection from the patent system whatsoever. I feel I received none."

Even if a small company agrees to a licensing deal with a larger group the path will *not necessarily be smooth. It* is not unknown for the larger partner to squeeze the small man on the terms of royalties *or to fail to meet the payments* agreed. To enforce his rights the small man would once again *be forced* to go to the courts.

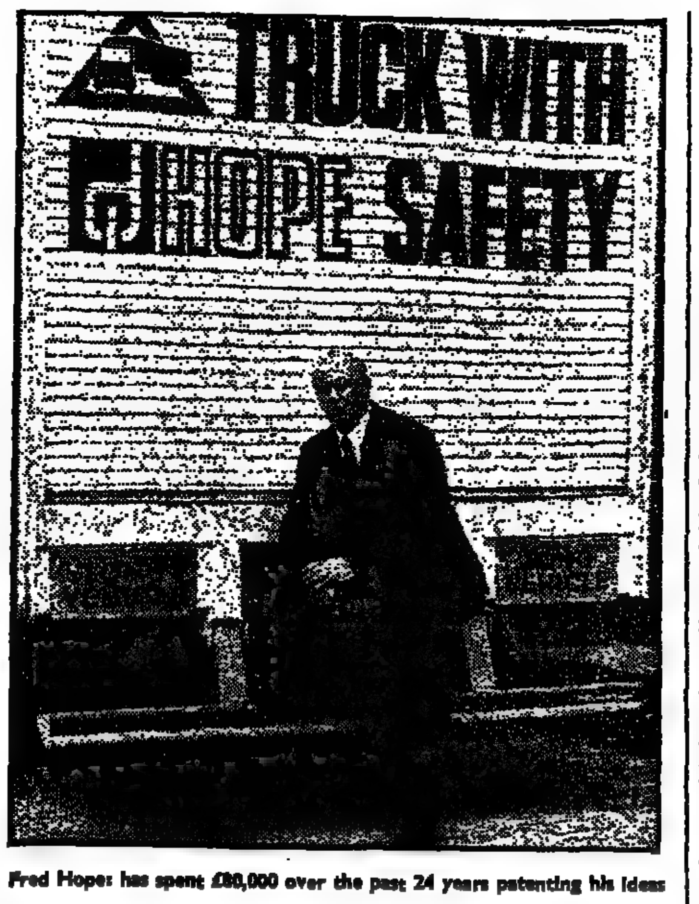
The smaller company can strengthen its position by taking out legal protection insurance to cover its patents. The knowledge that the small man has cover may be enough to deter the would-be infringer.

Brian Raincock, managing director of the Legal Protection Group, estimates that 3,500 people have taken out cover with his company. Inventors can cover themselves for up to £250,000 in an individual patent action.

"It does free the small entrepreneurial company from the fear that the big man will brush him aside," says Raincock. "The patents manager of one large multinational complained to me that this made it more difficult to pinch small companies' ideas," he adds.

Patent Office, State House, High Holborn, London WC1. Tel: 01-831 2525. Chartered Institute of Patent Agents, Staple Inn Buildings, High Holborn, London WC1V 7PZ. Tel: 01-405 9450.

A Manager's Guide to Patents, Trade Mark and Copyright. John F. Williams. 188 pages. £12.95. Kogan Page.



Fred Hope: has spent £80,000 over the past 24 years patenting his ideas

Management buy-outs

Striking the right bargain

Charles Batchelor offers advice on how to conduct negotiations

MANAGEMENT buy-outs have become very popular over the past decade. But this does not mean that the management teams have found them any easier to achieve.

First, managers lack experience in handling a complex transaction of this kind—after all, it is usually a once-in-a-lifetime event. Second, the existing owners of the buy-out unit—the parent company or the controlling family—have become more aware in recent times that they can strike a hard bargain. In addition, competition has become more intense from roving teams of managers ready to stage a "buy-in" and from rival companies prepared to *make a competing* bid.

So how should managers go about aquiring ownership as well as management control of the company they work for? What are the pitfalls they must avoid?

There are many practical reasons—financial, taxation, legal—why buy-outs do not go ahead, but as many fail because of personality clashes and an inability on the part of the two sides to communicate effectively as for any other reason.

The smaller the buy-out team the better. Experienced advisers in this field suggest that between two and five members *is best so as to avoid disagree*ments within the team, to speed up decisions and to reduce the risk that its credibility will be damaged by one of the managers succumbing to another more attractive job offer.

The team should establish early on whether, in principle, a buy-out is feasible, to avoid wasting time and money on fees *to professional advisers.*

The advisers themselves should be chosen for their previous experience in this area and they should be involved at an early stage. This might make *for a slight increase* in fees but could in the long run save money. Managers should be aware, however, that if the buy-out fails, they could personally face heavy fees and the structure of charges should be agreed from the start.

One of the most difficult problems for the managers is that they are negotiating the deal with their bosses. It is not unknown for managers who propose a buy-out deal to get the sack. They face psycho*logical pressures and the fear* that if the deal does not go through, their career prospects within the parent group will be harmed.

This problem can be partly overcome by appointing one of the independent advisers to head the negotiations. He will be less worried about upsetting the boss.

The managers must be prepared to persevere. It will take on average nine to 12 months from the initial idea to the ex*changing of* contracts, although some deals have taken up to two years to complete. At one moment the negotiations will be *going smoothly, at the next they* may appear to be on the point of being called off. The management team should beware of letting the professional advisers dictate totally the pace of the negotiations.

Where the business is the management—in, for example, financial or computer services or consultancy—the team can often effectively use the threat of a walk-out to improve the terms of the deal or ward off rival bidders.

This cannot be used as an empty threat, however, since the bluff may be called. The managers *must be prepared to* walk and must plan carefully—ensuring that they can carry on the business elsewhere, that finance is available and that they are not breaching contractual agreements with their *employer.*

The management team's hand will be strengthened if it thinks itself into the position of the vendor. Who else could the business be sold to and on what terms? Would it be more advantageous to the vendor to put the business into receivership or liquidation instead of selling it? This rarely is the *case since large redundancy* payments might be triggered.

Arranging the finance is a crucial part of the deal. Management teams should make sure they borrow enough—too little could force them to refinance at an early stage or even mean the company fails. They should select their sources of finance carefully but beware of touting the deal too widely round the City since this can give it a shop-soiled look.

Care should be taken in dealings with the company's existing financiers. They may not be prepared to continue to finance the operation on the same *terms since* there may have been guarantees provided by the parent company which will have to be renegotiated.

Finally, much attention will have to be paid to the business plan. If the company is unable to produce the profits and the cash flow to pay off the *high* level of debt it has taken on, a successful buy-out may soon become a commercial failure.

Useful reading: Guide to Management Buy-Outs 1986-87, The Economist Publications £45. Spicer and Peglers' Management Buy-Outs, Woodhead-Faulkner.

In brief...

A SCHEME to provide up to £5,000 of free consulting services to small businesses, launched by accountants Peat Marwick McLintock, has attracted more than 60 applications and the final date for entries has been extended to July 31.

The Enterprise Initiative Scheme, launched in April, aims to provide growth companies which expect to create at least 20 new jobs each over the next 12 months with advice on marketing and finance and introductions to sources of funds.

Candidates are expected to produce a five to 10 page business plan. Contact PMM at 1 Puddle Dock, Blackfriars, London EC4V 3PD. Telephone 01-236 8000.

●

A GOVERNMENT - funded *programme to help people set* up co-operatives on the model of the Mondragon enterprise in northern Spain has been launched in Middlesbrough.

The North Central Middlesbrough Task Force is providing £200,000 to the Co-operative Development Agency to launch the scheme. The plan is to create 130 jobs in one year in an area with 20 per cent unemployment by expanding existing co-ops, helping embryonic co-ops to start trading and identifying opportunities for products and services they could provide.

The venture will also *attempt to save threatened* jobs by anticipating closures creating what it calls "phoenix co-operatives."

Contact Ken Lucas, Middlesbrough Co-operative Initiative, 10A Albert Road, Middlesbrough, Cleveland TS1 1QA. Tel: 0642 210224.

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Telephone: (01) 236 8000 Telex: 8811541

Leisure Centre For Sale
The centre, which has approximately 1,600 members, comprises a full suite of health and fitness rooms including a swimming pool, seven squash courts, together with a function room, dining room and lounge bar facilities. The assets include an extensively refurbished freehold property with approximately one acre of land and is situated in the West Midlands close to a *large commuter population and with excellent* motorway links.
For further details please contact:-
R. Hale, Robson Rhodes, Centre City Tower, 7 Hill Street, Birmingham B5 4UU. Tel: 021-643 5494.
ROBSON RHODES
Chartered Accountants

CHRISTIE & CO
NORTH OXON
FREEHOLD. BEAUTIFUL PERIOD BRASSERIE & RESTAURANT. High Street position of pretty market town. Seats 70+ with small flat/office. Tkgs £250,000 inc. Appointed to a high standard. SENSIBLY PRICED AT £315,000. Ref: (2/6035/Z). LONDON OFFICE 01-799 2121.
BORDERING OXON
MID VICTORIAN HUNTING LODGE. 3 ACRES GROUND REG 28 established 5 years as a high quality nursing home. Extensive owners accom. Fees £200/£230 pw with 30% of the residents currently supported by the DHSS. £1,000,000 Freehold. Ref. 5/0812/FT.
BEDFORDSHIRE
HIGH QUALITY NURSING HOME REG 31. Estab. 1982. Adjoining residence recently acquired and pp obtained to link this to the nursing home providing further accom. Fees £210/245 pw. T/O *£350,000. £1,300,000 Freehold. Ref. 5/0624/FT.*
50 Victoria Street, London SW1H 0NW
Tel: 01-799 2121 Fax: 01-222 0081

Businesses For Sale
IMPORTANT MOTOR TRADE OPPORTUNITY
LINCOLN
A HIGHLY PROFITABLE PETROL SALES OUTLET with Tyre and Exhaust Workshop, Car Wash Business in prime High Street location
Petrol sales circa 750,000 gallons per annum
Company for sale by way of transfer of whole of share capital
The Old Custom House, Market Place, HULL HU1 1RS
Tel: 0482 23030
Fax: 0482 224289
DDM Est. 1889 DICKINSON, DAVY & MARKHAM

FOR SALE
PORT FACILITY
Group plans to dispose of subsidiary Co./Port Facility in Southern England. Going concern/assets only.
Principals only please in strict confidence to the Chairman
Write Box H2137, Financial Times 10 Cannon Street, London EC4P 4BY

MAGAZINE — NEW YORK
Internationally successful publishing concept launched in New York late 1986 available for outright sale or possible joint venture
Write Box H2142, Financial Times 10 Cannon Street, London EC4P 4BY

Businesses For Sale

PLASTIC EXTRUSION MANUFACTURER

Group wishes to divest above business to enable property development to commence autumn '87. The division has:

* Leading position with high volume consumer products
* Long established connection with fast developing DIY and garden multiple retailers
* Exciting new products
* Turnover £1.9 million with excellent margins

Please write to: John Polmear

DAVID GARRICK
39 Queen Anne Street, London W1M 9FA
Tel: 01 486 8142 Telex: 8954102

The Professionals in buying & selling companies

COMPUTER ACCESSORY DISTRIBUTION COMPANY

* Two unique products that can be used by every VDU operator (40 million screens worldwide).
* Developed and manufactured in Britain.
* Ideal range extension for office supply company, computer dealers or enterprising start up.

Write to Box H2143, Financial Times
10 Cannon Street, London EC4P 4BY

High Tech Information System

Offers are invited for a fully developed instant access parts retrieval system based on laser videodisc and touch screen technology. Launched with a high level of interest from the automotive and aerospace industries. The system is unique and is the subject of a patent application. The project requires further capital and marketing expertise. The company whose sole asset is the system or the undertaking itself are offered for sale by tender.

Please contact: K. G. Baldwin Esq.
Peter Graham & Co (Chartered Accountant)
The Wilson Building
1 Curtain Road LONDON EC2
Telephone: 01-247 1128. Fax: 01-247 8159

where the system is available for demonstration by appointment. Tenders close 7th July 1987.

FAST EXPANDING ELECTRONICS COMPANY

Designing developing and manufacturing own products for:

1. DATACOMMUNICATIONS — systems for linking and networking computers
2. TELECOMMUNICATIONS — special equipment for British Telecom
3. INDUSTRIAL CONTROLS — automation systems electronic and pneumatic

Budgeted sales for year ending September 1987 of £1.7 million with profits of c. £250K after depreciation. First profitable year after three years of reorganization and product development.
Strong growth potential from existing blue chip customers. Committed management team wants to remain and grow the business. Location: North Hertfordshire at M25/M11 junction.
Controlling shareholder can only devote part-time attention and will consider any constructive proposals for outright sale, majority sale, merger or flotation.

Replies to Box H2156, Financial Times
10 Cannon Street, London EC4P 4BY

FAMOUS COUTURE DESIGNER

Managing Director of successful subsidiary of public company has been given opportunity of separating from parent company. Suitable for sale with Managing Director holding minority interest. Going concern with own retail outlets and sales to all top stores. Current sales £1 million with tremendous development prospects with expansionist purchaser. Structure not suited to management buy out.

Principals only:
Reply to Finance Director, c/o Box H2146, Financial Times
10 Cannon Street, London EC4P 4BY

A NURSING & REST HOME GROUP

NORTH EAST

A Home Care Group consisting of two Nursing and three Residential Homes is offered for sale in the North East. Currently registered bed capacity is 111 with planning permission for immediate expansion by a further 70. Potential exists to increase this number to 284 beds and 24 sheltered units. The area is one of high demand and being within a 15 mile radius the present operational management structure can be built upon.

The Group is offered for sale at £2,000,000 Freehold
Sole selling agents are David & Co.
Interested purchasers should contact John Kelly on 01-879-1414

INDUSTRIAL PARTNER WANTED

Exciting specialised small high technology electronics company with world leading technology which is successfully being licensed worldwide seeks an industrial partner to maximise exploitation of current and new products. The company is profitable with no debt burden and well positioned in terms of technical ability, but would welcome sales marketing and management skills from an industrial partner in preference to the development capital route

Please write in confidence to Box H2165
Financial Times, 10 Cannon Street, London EC4P 4BY

FOR SALE
EXHIBITION DISPLAY AND SHOP FITTING CONTRACTOR

Established 20 Years
TURNOVER £2M

Committed management team interested in selling or merging with Company with complementary skills.

Principals only will be replied to - For further details write to:
Box H2149, Financial Times, 10 Cannon St, London EC4P 4BY

DIVERCO

Sell Companies Nationwide

SELLERS and BUYERS
Contact in confidence:
DIVERCO LTD.
4 Bank Street,
Worcester WR1 2EW.
Tel: 0905 22303

POPCORN PLANT FOR SALE

150 lb/hour Savoury & Candy Coated Popcorn Production Line with all ancillaries.
New in late 1983 and little used. Excellent condition.

Details from C. J. C. Derry
Brownlow House, 50/51 High Holborn
London WC1V 6EG
Tel: 01-405 8411 Telex: 897377

HENRY BUTCHER

SOUTH DORSET ENGINEERING COMPANY

FOR SALE due to the proposed retirement of the owner: Precision Engineering Company specialising in small fabrications. Established 1959. Turnover approx. £360,000. Modern industrial unit of 8,800 sq. ft.—approx. market value £250,000. Labour force of 8 skilled and 12 unskilled staff.

Write Box H2151, Financial Times
10 Cannon Street, London EC4P 4BY

Cooke & Arkwright

SMALL FARM

South Shropshire borders with panoramic views of Welsh Marches. Small cottage in sheltered south facing position, traditional barn and 141 acres of land with additional if required.
Offers in the region of £170,000
Ref: TBV/06143
Berrington House, Hereford
Tel: 0432 267213

PREMIER SQUASH CLUB
(South-West)

Attractive six-court club with full membership and good profit record—for sale.

YORKE BUSINESS DEVELOPMENT CONSULTANTS
Silver Birches
Bashurst Hill, Itchingfield
W. Sussex RH13 7NY
Tel: 0403-790500

FOR SALE

Small Engineering Company in specialist drilling products sold direct to users—oil companies, civil engineering and construction companies and British Coal.
Turnover £250,000. Eight employees. Profitable but doesn't fit with PLC owner.

Write Box H2160
Financial Times
10 Cannon Street
London EC4P 4BY

OIL IN A DAY'S WORK

For Sale: Brand new, state-of-the-art chemical processing plant with proprietary technology. Plant's product—calcium bromide—a must for oil field drilling. Plant being offered by court-appointed trustee under anti-trust order. Very attractive terms including "at cost" supply contracts and mineral rights option. Once in a lifetime opportunity for venture capitalists, entrepreneurs and others focusing on oil-related investments.

Write: P.O. Box 3472
Church St. Station, NY
NY 10008

ARTESIAN MINERAL SPRING WATER

Suitable for Bottling, etc. Close to Motorway intersection. Land available for bottling on 1½ acre site. For Sale or Lease.

Write Box H2141, Financial Times

FOR SALE
PROPERTY COMPANY OF INTEREST TO A PLC

Private Yorkshire-based, with investment portfolio and development programme. Rental income: £102,050 net p.a. Valuation of current investments and developments: £2.2 million. Shares for sale in return for cash or equity.

Write Box H2144, Financial Times
10 Cannon Street, London EC4P 4BY

LONDON HOTEL FOR SALE

50 room hotel with short lease, nearly modernised, in excellent location in Central London.

Write Box H2164, Financial Times
10 Cannon Street, London EC4P 4BY

FOR SALE
CONSUMER AND PERSONAL FINANCE COMPANY LONDON

Fully computerised business with cash turnover of £300,000 p.a.
Telephone: 0245 288775

FOR SALE
Retail Pharmacy Chain
Several Million Sales

Write Box H2159, Financial Times
10 Cannon Street, London EC4P 4BY

PROFITABLE
SUNBED MANUFACTURER

For Sale. With £1.8m T/O, due to concentration on other existing interests. Plant and Machinery £85K. S.A.V. and goodwill.

Replies to:
Box H2138, Financial Times
10 Cannon Street, London EC4P 4BY

LIVE BUTTERFLY FARM AND EXHIBITION GIFT SHOP

Unique and delightful business at a major south coast resort for sale t/o approx £150,000 pa. Lease 50 years, low rent. Enormous potential for working owner. Price £150,000 (not negotiable, immediate sale).

Please phone (05[illegible]) 645 office hours

WATERSPORTS
Retail and Site Management

Long established. £300,000 p.a. T/O Home Counties. £85,000 plus S.A.V. Freehold available

Write Box H2079, Financial Times
10 Cannon Street, London EC4P 4BY

SPECIALIST IRON FOUNDRY

Offers are invited for a well established business occupying a 7-acre site, current turnover over £4m p.a. in a niche market segment. For further details (principals only) reply to:

L. Milnes
Hepworth & Grandage Ltd
St. John's Works
Bradford, West Yorks
BD4 8TU

ATTENTION ENTREPRENEURS AND VENTURE CAPITALISTS
FOR SALE

Brand new, state-of-the-art chemical plant with proprietary technology. Plant's product—calcium bromide—a must for oil field drilling. Plant being offered by court-appointed trustee under anti-trust order. Very attractive terms including "at cost" supply contracts and mineral rights option. Once in a lifetime opportunity for venture capitalists, entrepreneurs and others focusing on oil-related investments.

Write P.O. Box 3472
Church St. Station, NY
NY 10008

MAJOR TRAVEL GROUP

for sale in South of England, a respected and motivated business operating through several well sited offices. £10 million turnover. Principals only please apply to:

Mr. R. Manning
43 Lancelot Road, Welling, Kent

U.K. DISTRIBUTORSHIP

for exclusive designer range of paper tableware. 200 prime blue chip retail accounts plus inventory.

Principals only to:
David Payne FCA,
98 High Street,
Tenterden, Kent TN30 6JB
Tel: 05806 3222

TILE IMPORTER
For sale as a going concern

7,000 square feet of Distribution warehouse and showrooms with retail outlet in Midlands adjacent to Motorway. Excellent import connections that could be developed to advantage of purchaser. Company has tax losses available.

Write Box H2154, Financial Times
10 Cannon Street, London EC4P 4BY

FOR SALE
Old Established Glazing Co.
t/o £800,000 pa
London based

Write Box H2158, Financial Times
10 Cannon Street, London EC4P 4BY

SMALL PROFITABLE COMPANY

Established 1950
IMPORTING AND MERCHANDISING INDUSTRIAL MINERALS
Turnover in excess of £1,000,000
Seeks increased outlets or would consider amalgamation

Write Box H2161, Financial Times
10 Cannon Street, London EC4P 4BY

PROPERTY VALUATION COMPANY

Provides a unique valuation service for plc's and local authorities. Ideal for expansion within existing professional office/building society. Tremendous potential but owners too busy elsewhere. Price c £50,000 for present and future potential.

Write Box H2140, Financial Times
10 Cannon Street, London EC4P 4BY

EXPRESS DELIVERY, STORAGE AND DISTRIBUTION COMPANY
E. MIDLANDS

Well established private company producing at least £120,000 net profit pa pretax and directors. Management continuity and freehold warehouse available. Substantial offers required.

Principals only to Box H2150
Financial Times, 10 Cannon Street
London EC4P 4BY

EFFLUENT TREATMENT

A private company with good track record in design and construction of effluent treatment and CHP plants for sale due to rationalisation of existing group activities. Current turnover approaching £2m

Write Box H2166, Financial Times
10 Cannon St, London EC4P 4BY

Business Services

COMMERCIAL FUNDS

available
* Property Development *
* Investment Properties *
* Project Funding *
* Refinancing *

We also have good quality property development projects which require equity funding by private investors. High potential return on capital.

Call: CAPITAL CONSULTANTS (UK) LTD
Worcester House, Dragon Street
[illegible], Hants GU31 4JD
Tel: 0730 68122 - Fax: 0730 64710

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(PER WEEK)
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[illegible]

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Isle of Man & Non-Resident
EXPRESS
COMPANY REGISTRATIONS LIMITED
Epworth House, 25-35 City Rd, London EC1Y 1AA
Telephone 01-588 3271 Telex 887475

BUSINESS AND ASSETS of solvent and insolvent companies for sale. Business and Assets (RLC). Tel: 01-637 3036.

DIRECT MAIL LISTS & SERVICES—100s of ready-made lists immediately available. Suppliers to leading UK companies. Free catalogue. Marketscan, Freepost, Chichester, Sussex. Tel: (0234) 786711.

Business Opportunities

ESTABLISHED SPECIALIST ENGINEERING COMPANY
Located in East Midlands

Turnover circa £800,000. Good order book, operating from 20,000 sq ft Factory. Existing management available
Require equity capital c £100,000, alternatively would consider straight sale
Associated freehold site, 5 acres with factory could also be made available

Write Box F7444, Financial Times
10 Cannon Street, London EC4P 4BY

Businesses Wanted

WANTED

Definitely Alive - Capital Reward

Are you the owner of a well managed manufacturing company with a good profit record which has now reached at least £150,000 per annum? Are you looking to continue to run your company and expand it further, but are unsure about USM, BES or what?

We are an expanding public company in the manufacturing sector still small enough to have consideration for each of its subsidiaries. We offer you a capital reward for bringing us your company; the environment for achieving your planned expansion; and further rewards for achieving it.

Please write to us now in complete confidence. All replies will be forwarded to us unopened from:
Box No. 404, Streets Financial Communications (Midlands) Ltd., Bennetts Court, 6 Bennetts Hill, Birmingham B2 5ST.

ENGINEERING DESIGN CONTRACTING BUSINESS WANTED

servicing the Aerospace and Advanced Technology markets.
Outright purchase, major interest or funding for management buy-out will be considered.
Write in confidence to:
Frank A. Powell
MOHACS INTERNATIONAL LIMITED
Hanover House, 76 Coombe Road
Kingston upon Thames, Surrey KT2 7AH
An Advanced Technology Transfer Resourcing Company

RECRUITMENT/ADVERTISING AGENCY/CONSULTANCY
BUSINESS WANTED

Fast-expanding, diversified £5m+ turnover consulting group seeks further acquisitions in recruitment/selection/search or advertising agency business. Funding available if necessary. Outright purchase or major interest.

Write in confidence to Box H2022, Financial Times
10 Cannon Street, London EC4P 4BY

GENERAL STEEL STOCKHOLDERS

Substantial Private Company wishes to acquire for cash STOCKHOLDERS LOCATED IN THE MIDLANDS AND SOUTH
Minimum turnover £3m

Replies treated in strictest confidence to:
Box H2155, Financial Times
10 Cannon Street, London EC4P 4BY

TRADING COMPANY

We are coal traders acting both as principal and agent wishing to expand our trading side. Preference will be given to energy-related products. Will consider either an outright purchase of an existing company or an agency relationship. Principals only need apply.

Your proposals in confidence to Box H2153
Financial Times, 10 Cannon Street, London EC4P 4BY

MAJOR INTERNATIONAL PUBLISHING GROUP

wishes to acquire business magazines, directories, trade exhibitions or appropriate publishing company as part of current expansion programme. Both UK and international titles of interest.

Replies in first instance, please, to Box H2139
Financial Times, 10 Cannon Street, London EC4P 4BY

WANTED TO ACQUIRE
SMALL BROKERAGE FIRM OR LICENSED LONDON STOCK EXCHANGE MEMBERS

Our client wishes to acquire a Shell Company or small operating firm with the requisite licences as London Stock Exchange members or as licensed dealers under the FIMBRA rules in the UK.

Please reply immediately in strictest confidence to:
Box F7352, Financial Times, 10 Cannon St., London EC4P 4BY

SUCCESSFUL PUBLIC COMPANY

already a Major Importer of Garments from the Far East wishes to buy an Established and Profitable

GARMENT IMPORTER SOURCING FROM EUROPE

Would require Management to remain in place

Principals only please write to:
Box H2136, Financial Times
10 Cannon Street, London EC4P 4BY

PLASTICS EXTRUSION MANUFACTURER

We wish to acquire on behalf of a substantial overseas client a small manufacturing company in the UK. Assets/liabilities of the company are not a major criteria.
Principals only apply to the:

LAWRENCE PARTNERSHIP
Chartered Accountants
Oxford House, 9-15 Oxford Street, London W1R 1RF

TEXTILE AUXILIARIES

Advertiser seeks companies with turnover of between £¼ (quarter) million and £2m who wish to sell their equity or part exchange for technical advice/manufacturing-distribution capability. Advertiser markets into the textile industry but wishes to widen base. Confidentiality guaranteed.

Write Chairman, Box H2145, Financial Times
10 Cannon Street, London EC4P 4BY

PLC SEEKS ACQUISITIONS WITHIN THE SERVICE INDUSTRIES

Are you a proprietor within the Security, Cleaning or Catering Industries with a turnover of at least £1m? If so we would like to talk about the future and what a successful and growing plc management structure can offer.

Make contact through Box 2152, Financial Times
10 Cannon Street, London EC4P 4BY

DO YOU WISH TO SELL A BUSINESS?

A company wishes to acquire businesses currently involved in the manufacture and/or supplying and marketing of products to the UK retail D.I.Y. trade. Listed groups wishing to divest of a subsidiary company in this field or private limited companies which would like to join and operate within a new group are of particular interest.

Please send initial written details outlining main market activities and company structure to:

Box H2162, Financial Times
10 Cannon Street, London EC4P 4BY

Expanding Public Company

Our activities include the wholesale distribution of branded consumer goods and industrial/engineering products through a national network of depots. As well as generating internal growth we intend to continue our acquisition programme.
We are seeking well managed, successful businesses where the owners wish to release capital but continue to operate their companies autonomously and expand within a fast moving and profitable group. We will expect minimum profits of £150,000 per annum.

Reply to Chairman
Box No. H2157
Financial Times
10 Cannon Street
London EC4P 4BY

A FOOD MANUFACTURING COMPANY

is looking to acquire a compatible food manufacturing organisation to supplement its continuing growth. We are a profitable manufacturing and distributing company and part of a major plc.

Please reply in strictest confidence to:
Box H2148, Financial Times
10 Cannon Street, London EC4P 4BY

MAJOR PLC
WANTS TO ACQUIRE

companies in concrete technology and repair and related activities.
Any size considered.
M. A. Sharpes,
Thomson Business Brokers
11 Palmer Street
London SW1H 0AB

PLC

WISHES TO ACQUIRE CASH-RICH COMPANIES AND LARGE CASH PRODUCERS

In the first instance please write to:
Box H1985, Financial Times
10 Cannon Street, London EC4P 4BY

MAJOR FIRM

Involved in Insurance Broking, Life Assurance, Unit Trust Advisory Services, Pension and Benefits Consultancy

SEEKS ACQUISITIONS

Commission/fee income between £250,000 and £5m pa considered -
Write Box G10280, Financial Times
10 Cannon Street, London EC4P 4BY

AUSTRALIAN SEEKS UK OPPORTUNITIES

Australian businessman seeks small but up-market business in UK with view to its further expansion.

Anything considered — service industries, catering, export/import, manufacturing.

Ring 01-628 6225 or 01-692 9797

PROFITABLE PLC

We are a profitable plc and wish to expand by acquisition in the manufacturing or industrial distribution sectors. We are looking for companies in the small to medium size range with pre-tax profits of up to £1m. Arrangements for acquisition can be based on cash or equity or a suitable mix. All replies will be treated with the utmost confidentiality.

Principals only to reply to:
Box H1721, Financial Times
10 Cannon Street, London EC4P 4BY

FUNERAL DIRECTORS

Any area or size considered

Contact:
M. I. Makin FCA
Nash Broad
42 Upper Berkeley Street
London W1H 8AB
or telephone 01-823 7293

EXPANDING PLC

Wishes to acquire Property Development Companies, Housing Companies, Contracting Companies or combination

In the first instance please write to Finance Director
Box H1922, Financial Times
10 Cannon Street, London EC4P 4BY

SPECIALIST FOOD MANUFACTURER

Wishes to acquire similar, profit c £100,000 for further expansion.
Replies to:
Box H2147, Financial Times
10 Cannon Street, London EC4P 4BY

Company Notices

Ford

Following the DIVIDEND DECLARATION by the Company on 9 April 1987 NOTICE is now given that the following DISTRIBUTION will become payable on or after 16 June 1987.

Gross Distribution per Unit	3.75 cents
Less 15% U.S.A. Withholding Tax	0.5625 cents
	3.1875 cents
Converted at $1.68	£0.018973214

Claims should be lodged with the DEPOSITORY: National Westminster Bank PLC, Stock Office Services, Third Floor, 20 Old Broad Street, London EC2, on special forms obtainable from that Office. United Kingdom Banks and Members of the Stock Exchange should mark payment of the dividend in the appropriate square on the back of the certificate.

All other claimants must complete the special form and present this at the above address together with the certificate (s) for marking by the National Westminster Bank PLC. Postal applications cannot be accepted.

DATE: 16 June 1987

COMPANY ANNOUNCEMENT
EAST RAND GOLD AND URANIUM COMPANY LIMITED

(Incorporated in the Republic of South Africa)
Registration No. 71/07001/06

RESULTS OF MEETINGS OF MEMBERS AND DEBENTURE HOLDERS HELD ON JUNE 11 1987

Members and debenture holders are advised that, at meetings which were held on June 11 1987, the resolutions, as set out in the notices included in circulars posted on May 15 1987, were passed, and the special resolutions have been registered by the Registrar of Companies. Accordingly, of the 7 921 288 unissued ordinary shares of 50 cents each in the capital of the company, 6 000 000 of such shares have been converted into a like number of S ordinary shares of 50 cents each. A total of 2,870,000 of such S ordinary shares are reserved to meet the rights of debenture holders to convert their debentures into S ordinary shares in the conversion periods set for 1987 and 1988 respectively, and according to the conditions applicable to each such period already announced.
Copies of this announcement are being posted to members and debenture holders at their registered addresses.

Johannesburg
June 16 1987

MERCURY SELECTED TRUST
(SICAV)

10 boulevard Roosevelt
Boite Postale 408
L-2014 Luxembourg

PAYMENT OF DIVIDEND

Notice is hereby given to Shareholders that following a Resolution passed at the Annual General Meeting of Shareholders held in Luxembourg on 15th June, 1987, dividends for the year 1986 of US$0.25 per share for the Global Fund and US$0.03 per share for the United Kingdom Fund have been declared. These dividends will be paid as from 30th June, 1987, against presentation of Coupon No. 2, at the Company's Paying Agent in the United Kingdom:

S. G. Warburg & Co Ltd
Paying Agency, 6th Floor
1 Finsbury Avenue
London EC2M 2PA

from whom claim forms may be obtained

United Kingdom tax will be deducted at the rate of 27 per cent unless claims are accompanied by an affidavit.

MERCURY SELECTED TRUST
16th June, 1987

CLASSIFIED ADVERTISEMENT RATES

	Per line (min. 3 lines) £	Single column cm (min. 3 cms) £
Appointments	12.50	43.00
Commercial and Industrial Prop.	12.00	41.00
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Books Page	—	[illegible]
Panel	—	30.00

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CLASSIFIED ADVERTISEMENT MANAGER
FINANCIAL TIMES
10 CANNON STREET, EC4P 4BY

BANK LEUMI (UK) PLC
US$10,000,000 Undated Primary Capital Floating Rate Notes

The interest rate applicable to the above Notes in respect of the interest period commencing 16th June 1987 has been fixed at 8% per annum.
The interest amounting to US$40.67 per US$1,000 and US$406.67 per US$10,000 principal amount of the Notes will be paid on 16th December 1987 against presentation of Coupon No. 4.

BANK LEUMI (UK) PLC
Principal Paying Officer

NOTICE TO HOLDERS OF WARRANTS
S. T. CHEMICAL CO., LTD.

U.S. $25,000,000 2¼ PER CENT. GUARANTEED BONDS DUE 1992 WITH WARRANTS (THE "WARRANT") TO SUBSCRIBE FOR SHARES OF COMMON STOCK OF S. T. CHEMICAL CO., LTD.

Pursuant to the relevant provisions of Clause 3 and 4 of the Instrument (the "Instrument") and paragraph 12 of the Paying and Warrant agency Agreement both dated 10th June, 1987 relating to the captioned Warrants, notice is hereby given to you that:

1. The Board of Directors of S. T. Chemical Co., Ltd. (the "Company") at its meeting held on 11th June, 1987 resolved that the Company shall make a free distribution of shares of its Common Stock on 14th August, 1987, Japan time, to the shareholders of the Company registered on its register of shareholders as of 30th June, 1987, Japan time (the "record date"), at the ratio of 0.1 share for each one share owned by such shareholders.
2. As a result of such free distribution the subscription price in respect of the captioned Warrants, which is currently 2,194 Yen per share, will be reduced to 1,994.50 Yen per share of the Company's Common Stock in accordance with Clause 3, paragraph (1) of the Instrument. The new subscription price will become effective on 1st July, 1987 which is the day immediately after the record date.

THE MITSUBISHI BANK, LIMITED
London Branch,
as Principal Paying Agent
for and on behalf of
S. T. Chemical Co., Ltd.
Dated: 16th June, 1987.

THE ARTS

London Galleries/William Packer

A draughtsman with a dextrous wit

Peter de Francia is still a figure of some considerable consequence in the British art world — an artist, a teacher and, that awesome creature, an intellectual. He retired from the Royal College of Art last year, where he succeeded Carel Weight as Professor of Painting in 1972. While not setting the world alight nor shifting significantly its general figurative inclination, the Painting School under his direction has maintained its position, *primus inter pares* as a centre for post-graduate study.

To do as much in such straightened times, with the Royal College under pressure to move away from the fine towards the applied and industrial arts, was no small achievement. He is also a scholar of the modern movement, with definitive studies of his particular hero, Fernand Léger, to his name, and enjoys that enviable deference the British seem prepared to allow Marxist critics of a suitably Gallic provenance.

But it is the artist who concerns us now, for he declared himself as such only sparingly and at extended intervals. His current retrospective exhibition at the Camden Arts Centre (Arkwright Road, NW3: until July 26) therefore, is not to be missed. There we discover not a painter at all, but a draughtsman.

This is not to say de Francia is not a painter, for a few paintings are included (and further reference is made to his full-dress schemes and compositions in the booklet that accompanies the show) but these are unimpressive, laboured on the surface and straining after an intellectual or imaginative significance. He would be a painter in the grand way of Guttuso or Beckman, Picasso or Léger, *engagé* on the side of the secular angels of our times—for the workers against the fascists and down with the bourgeoisie. Which is all very well, but it is hardly the quality of its politics alone that makes *Guernica* a masterpiece.

The drawings, which supply the overwhelming mass of the show, are quite a different case. They present at first a somewhat dense and uniform impression, but an ostensible chronology soon establishes the suites and sequences of images—whether set upon given or invented themes or direct observation — that characterise de Francia's way of working. A deep knowledge and understanding of the human figure is evident, and one of the chief delights, especially of the more recent work, is the light, deft wit with which that knowledge is exploited, sometimes to the point of making us laugh aloud.

There is nothing here so heavy handed, either in technique or in the formal quotations from his masters, as in the paintings, though the informing ideas often remain serious enough. There is a quality of mannered exaggeration, amounting at times almost to caricature, that sometimes obtrudes a shade too much, but for the most part it is judged to a nicety. The principal dangers with these ironical teasing, humorous, felicitous works are only those of easy repetition and self-parody.

It might be the bizarre, mundane sociability of a Tunisian brothel that intrigues him, or merely a group of his friends lounging the day away beneath the trees, a bourgeois idyll indeed, or again, the latest variation of one his Classical or literary themes, but all have their particular and delightful moments. Daedalus demonstrating to Queen Pasiphae the machine he has made for her by which she may enjoy the bull is a most particular tableau that lives long in the mind's eye. To draw so well is remarkable, and there is no hierachy that requires such work to be anything more than just itself. The small exhibition in an adjoining room, of drawings and prints by a number of the Professor's sometime pupils, serves more to point to his distinction as an artist than as a teacher.

"Minotaur," 1979, by Peter de Francia

*

After several years in partnership with the Annely Juda Gallery, the Rowan Gallery has now returned to its old home in Bruton Place, off Berkeley Square, where it will now operate in partnership with the Mayor Gallery of Cork Street as the Mayor Rowan Gallery. The move is especially welcome, albeit there was no fault in the old arrangement with Mrs Juda, whom we all wish well, because the old Rowan Gallery was blessed with one of the most beautiful and effective spaces in London in which to show off contemporary art to the greatest advantage. Director Alex Gregory-Hood now has it at his disposal once more, and for all of us it is like coming home. The inaugural exhibition is of new paintings by Bridget Riley (until July 23), with some of the introductory work to this latest phase in the lower gallery, which could hardly be more ravishingly appropriate to the occasion.

This new work marks a significant moment in the slow, immaculate, inexorable development of Miss Riley's imagery. The essential structure of regular vertical stripes or columns remains, which lies close to the pictorial surface and generates a shallow space. The colour, too — close-toned, bright and intense in hue and optically active, greens, yellows, pinks and blues — is much as we have come to expect over recent years. But what is entirely new is the superimposition of a diagonal system across the vertical, not so much a structure as a veil or screen that fractures the more solid vertical stripes behind almost to the point of dissolution. The effect is not to render the pictorial space more ambiguous but to make it much deeper, to push those columns away from the surface and to penetrate through to the infinite space beyond. We begin to think of the tree trunks of Cezanne and Seurat, and perhaps of the mountain far away.

*

A brief word in conclusion about an opportunity that might not come again for very many years: the late, great Turner *Seascape, Folkestone*, circa 1845, that was sold a year or two ago to a private collector for a then world record sum in excess of £7m from the estate of the late Lord Clark, is on show at Agnew in Bond St, newly cleaned, until the end of the month. It is a most wonderful thing, all spray and mist, smoke and light, swell and roll, painted with the freest of hands. Go and see it in perfect daylight while you can.

Shostakovich/Barbican Hall

Dominic Gill

The London Symphony Orchestra's "Great Russian Masterpieces" series continued on Sunday with a Shostakovich programme conducted by the composer's son Maxim Shostakovich. Shostakovich *fils* is not a particularly inspiring, nor even a particularly good, conductor: but he has a presence, and a kind of nostalgic alchemical force, to inspire from his players at least a very decent simulacrum of the greatest music his father composed.

The programme opened with the second cello concerto—a work which takes its place in the calendar as happining just before "late-period" Shostakovich proper (the premiere was given in 1966, shortly before the composer suffered that crucial heart attack on his 60th birthday); but a late work, the melancholy and fleeting shadows of which permeate every corner of the music, and which can be heard as a kind of organic, dramatic preparation for the final period of lyrical exhaustion and darkness.

The performance, by the American cellist Gary Hoffman, had fine presence and projection. I specially liked his ruminative way with the concerto's central section and spiritual heart—a delicate and half-optimistic shadow slanting, like a ray of filtered sunlight, across the heavy irony of the whole. The whole of the concert's second half was given to the 13th symphony—earlier than the cello concerto no. 2, but the first explicit (as distinct from endlessly implicit) sign of musical and ideological grief in the whole of Shostakovich's oeuvre.

The Swiss-Bulgarian Dimiter Petkov was the bass soloist in the symphony, and London Voices were the male choral support. Shostakovich *fils* made a good bravura showing, only very occasionally bringing in the instruments with a gesture that was a bar early or a bar late—and even when that happened, the LSO players, diehard professionals that they are, took no notice, and came in precisely where they ought.

Turnage/Wigmore Hall

Andrew Clements

The Nash Ensemble's intelligent and enterprising pair of programmes juxtaposing Ives, Copland and Crumb with works by living British composers has been rewarded, almost predictably, by painfully small audiences. Last Wednesday's concert, on which Max Loppert reported brought a new work from Jonathan Harvey. Sunday evening's introduced a Nash commission from Mark-Anthony Turnage, *Beating About the Bush*.

Turnage is working on an opera to be staged in Munich based upon *Greek*, Steven Berkoff's East-End reworking of the Oedipus myth. Written in September and October last year, *Beating About the Bush* is a study for the opera and a potential extract from it, an aria for mezzo-soprano and chamber ensemble which uses a monologue from the second act of Berkoff's play in which the wife of the latter-day Oedipus describes a particularly passionate bout of love-making with rich (if fairly conventional) imagery.

Turnage's vocal writing sets out to capture the sensuousness of the text in gratefully contoured, wide-ranging lines. The result is sometimes uncannily like Tippett (of *Knot Garden*, Third Symphony vintage) with blues inflections and ecstatic melismata; its success in conveying that ecstacy is intermittent, and there is a strange dichotomy, perhaps deliberate, between the febrile mezzo part and the matter-of-fact, almost dowdy instrumental writing.

Jean Rigby was a thoroughly convincing, hazily seductive soloist. Earlier she had given an equally alluring account of Crumb's *Night of the Four Moons*, as self-consciously poeticised as any of his scores and just as consistently insubstantial.

The Nash's playing was splendidly vivid throughout. They had begun with a commission first heard at the Bath Festival a year ago, Simon Holt's clarinet quintet *Burlesca Oscura*. It promises to wear exceptionally well; the sequence of dark, forbidding images—generated, the composer suggests, from a painting by Goya—and the inventive use of the ensemble give it a highly distinct identity, whether or not one perceives in it all a convincing, coherent structure.

Opera on the Rhine

Ronald Crichton

The new *Cunning little vixen at Cologne* shows the German operatic machine functioning at its smoothest. Janácek's fantasy, combining humans and animals, is not easy to stage. Harry Kupfer's production, with a setting by Hans Schavernoch and costumes by Reinhard Heinrich, technically minutely detailed, went on the first night without hitch or stage-hands' clatter.

In a prison-like space with high brick walls slatted at the sides, cut-out trees in jagged black silhouette slide ceaselessly back and forth. The trees are mostly used to indicate another part of the wood. Once when they form and reform for the shooting of the vixen by the poacher Háraschta, they take part in the action. No hope here for forest nostalgia: urban civilisation is just round the corner. Janácek's nervous, sharp-pointed music can take this, but hte visual effect is restless and cold.

There is no interval. The opera benefits accordingly, but the restlessness is accentuated. We all know that in a wood peopled with animals and insects nothing is ever still, but there is peace and relaxation as well. With those qualities Mr Kupfer is stingy. The animal costumes vary from what are surely the best-ever dragonflies to the worst and fussiest dachshund. Lighting was Brecht-white.

Gerd Albrecht conducted. The fine Gürzenich Orchestra played vivdly and keenly, so keenly that words were sometimes obscured — Hans Hartleb's German translation was used. *The vocal team-work* was impressive, properly dominated by the forester of Roland Hermann, more tense and nervy than most—again, one noticed a lack of relaxation. Janice Hall's vixen started squeakily but soon established a character. As her mate, a potentially unconvincing role, Roland Outland was unusually definite. As parson and downtrodden school master, Ulrich Hielscher (a useful bass) and Martin Finke made their mark. So did Robert Bork in the short but rewarding role o fthe poacher.

Alas, poor Oberon! Attempts to tinker with Weber's last opera, a musical jewel set in tuppence-coloured theatrical paste, seem doomed to misfire. For their new production at Düsseldorf, the Deutsche Oper am Rhein invited three theatre men from the DDR—Christian Pöppelreiter, Wilfried Werz and Hans-Jochen Irmer, respectively producer, designer and "artistic collaborator"—to stage a new translation and arrangement by Karlheinz Gutheim and Wilhelm Reinking. Between them and five cooks have kneaded and pummelled the English writer Planché's feeble but not hopeless fairy-spectacle to a shape judged, I suppose, more becoming for Weber and the German poet Wieland who was Planché's starting point.

In this ingenious but misguided version, an English country-house owner of bookish cast invites his guests to watch and take part in an opera. To explain what they are doing he recites quantities of Wieland or near-Wieland. As an elaborately umbrageous set which might be the hall and library revolves behind them, they dress up in oriental finery, act, sing and dance. *Mansfield Park* tangles with Mozart's *Die Entführung*.

No point, really, in elevating Planché above his literary station. If you upgrade the *Oberon* text you risk downgrading the music. In his greatly superior way, Weber respected the stuff for what it was—the Germans add fairy-plays too. At Düsseldorf Weber's chivalrous style, naive as well as noble, simply foundered.

The conductor Johannes Winkler (also from the DDR) dealt vigorously with the more extended numbers but allowed the short pieces to which the score owes much of its enchantment to go limp. Rezia the Caliph's daughter and her hero Sir Huon were solidly (in the tenor's case sometimes too solidly) sung by Carla Pohl and Raimo Sirkiä. The best singing came from Manfred Fink as the elf-king and from Christina Hagen, surely a genuine contralto, as Fatima.

Gavin Bryars/Almeida Festival

Paul Driver

Among the diverse attractions of the current Almeida Festival are three "English Profiles," over-views of composers James Wood, Daryl Runswick and, as presented in two substantial programmes at the Union Chapel, N1, on Sunday, of Gavin Bryars, a figure who has been dominant in "experimental" music-making in this country for years, but never enjoyed the wider prominence here that he has steadily gained on the Continent.

It was instructive, therefore, and entertaining, to be treated to some 10 of his works written between 1977 and this year, my objection being merely that eight would have probably been enough (all 10 were at a slow tempo), or at any rate that five and a half hours on wooden benches in a cold church is severely long.

The earlier concert included a couple of pieces which are available on a recent ECM disc: *First Viennese Dance* and String Quartet No 1, unusual and beguiling soundscapes both. The *Dance* is misleadingly titled (nearly all Bryars compositions take titles whose significance outruns the music in one way or the other): it is not remotely dance-like but a ravishing succession of long-breathed sounds from a solo horn and mostly tuned percussion (including bowed gongs and crotales), each given all the time in the world to decay. The piece is like a musical halo. Michael Thompson, standing in for the French hornist Pascal Pongy, played beautifully; the musicians of Music Projects/London were conducted by Richard Bernas.

The String Quartet is one of Bryar's best successes — a "minimalist" texture of simple figures such a harmonic minor scales, but subtly worked and varied: near the end each player retunes two of his strings to produce a delicate *scordatura* novelty. This performance was given by the newly formed Balanescu Quartet, and was as effective as could be expected when intimate ruminative music is projected in a large church. *Les Fiancailles* and *Effarene* are extrapolations from major projects or which Bryars has with the dramatist Robert Wilson. The first piece is a hypnotic, lush connubial reverie (for solo strings, pianos recaled salon-music, Satie, and the Messiaen of *Quatuor pour la fin du temps* — it began life as a scene intended for Wilson's opera *Civil Wars*; the second is a compilation of arias and other materials from *Civil Wars* and the opera, *Medea* using a manner that seemed like luscious parody of French 19th century opera (the excellent singers were Nicole Tibbels and Mary King, the two pianists required in the ensemble Leslie Howard and Martin Jones).

Seemed is the operative word, for one never knows in Bryars's music whether the surface style, often one of glutinous sentimentality, is to be taken seriously or not. The sub-texts of the pieces are usually complex and intriguing—*The Cross Channel Ferry*, which was given during the later concert, performed by the Gavin Bryars Ensemble (making its début) is full of puns and private references, the jazz-parody *My First Homage* hardly less so; the texts alone of *Effarene* involved Marie Curie, the Lebanese poet Etel Adnan, a Latin poem about photography written by a pope, and Jules Verne's *20,000 Leagues Under the Sea*. The promise of a rich play of irony is held out for the music itself, but somehow, strangely, that irony is regularly drained off, and we are left with deliberately vacuous statements that bear as much relation to the full conception of a piece as a pretty postage-stamp bears to a letter.

The piece I enjoyed most was *Out of Zaleski's Gazebo* (1977-78) for two pianos and eight hands. Bryars and Dave Smith joining the other duettists. Here ironic humour was clearly graspable if dead-pan. Roger Heaton gave an oustandingly eloquent account of the solo part in *Allegrasco*, a bizzare rapt survey of the clichés of the romantic clarinet concerto.

Arts sponsorship worth over £100,000

A national programme of arts sponsorship valued at over £100,000 has been set up by English Estates—a company specialising in the development and management of industrial and commercial property.

It is to back four arts organisations to bring a range of the arts to more than 30 regional centres.

The Northern Sinfonia will give 10 sponsored concerts and the Royal Liverpool Philharmonic seven in northern and Midland venues.

The Plymouth Theatre Royal will be the base for a pre-London musical production in the autumn, and an exhibition, *Introducing with Pleasure*, for which 12 celebrities have chosen paintings and sculptures from the Arts Council's Collection, will tour during two years to 17 venues.

English Estates sponsorship also allows for the purchase of two new works for the Collection.

Commemorating George Gershwin

A wide-ranging event commemorating George Gershwin's death 50 years ago is to be mounted at the Barbican Centre from June 21 to July 15 by the London Symphony Orchestra and the Guildhall School of Music and Drama.

American conductor Michael Tilson Thomas is artistic director of *The Gershwin Years*, which is sponsored by the London Daily News.

Dance in Italy

Freda Pitt

By early June, most Italian opera houses are shutting up shop. La Scala, Milan, now laudably continues its opera season into July, but the last dance production took place in May with Heinz Spoerli's version of *La Fille Mal Gardee* as Patricia Neary's bowing-out offering after her resignation over obstructiveness from various quarters.

One of her virtues has been the encouragement of promising young dancers, which caused resentment in the senior ranks. She has also had to contend with the labyrinthine bureaucracy that defeats most directors from outside Italy. Robert de Warren has been named as her successor, reportedly on the recommendation of Rudolf Nureyev.

At the Rome Opera, the season came to an ignominious end: after a month of strikes and recriminations, attention was so entirely concentrated on the lost opera production that a whole ballet programme disappeared without trace. If the house possessed a resident ballet director—William Carter's absence through illness, which led to changes in the earlier programmes, has not yet been officially admited—things might not have reached this pass.

In Florence, the Teatro Comunale rather rashly presented its own small company as part of the otherwise grandoise 50th anniversary Maggio Musicale. It was enterprising of Egon Madsen, the new director, to get Georgette Tsinguirides to stage John Cranko's Mozart ballet *Concerto for flute, harp and orchestra* for the first time outside Germany, but the work requires virtuosity of a high order from a group of male dancers so it proved much beyond the company's resources. An Aterballetto trio performed Aureli Milloss' Perassi work *Estri*, in the same programme, as a homage for the choreographer's 80th birthday. Though Hungarian by birth, Milloss has spent several decades in Italy, where he made his mark principally on account of his frequent collaborations with contemporary Italian composers and designers. The festival also organised an exhibition of designs made for Milloss ballets by artists such as Guttuso, Severini and Cagli, but the latter's decor was, ironically, absent from the Aterballeto staging.

Bolshoi prinicpal, Vyacheslev Gordeyev, who is taking his Moskovsky ballet to the new Turin International Ballet Festival in late July — headed a group of eight Soviet dancers who brought a programme of mostly familiar excerpts to the pocket-sizes Teatro Ghione in Rome. Despite the tiny stage, which seriously restricted the dancers' movements, especially in jumps, it was possible to admire their commitment as well as their stylish technique.

In order to see a less reach-me-down Soviet ballet programme in Italy, it will probably be necessary to await the Kirov's visit next June, so far announced by the Regio in Turin and the San Carlo in Naples. In the meantime, Kirov director Oleg Vinogradov has been engaged to mount the dances in Borodini's Opera *Prince Igor* at the Teatro Filarmonico in Verona this December.

The Teatro Petruzzelli in Bari has no company of its own but habitually includes a certain number of dance productions in its programmes. Having prefaced its opera season with a gala at which Mikhail Baryshnikov and Alessandra Ferri made brief appearances, they presented three French companies in the second half of May: the Ballet du XXE. Siecle, and Roland Petit's Ballet National de Marseille in two works that have already been reviewed.

Maurice Bejart is something of a Janus figure in that on the one hand he is known as a populariser, while on the other hand he frequently tackles abstruse subjects that demand pages of programme-notes, since what happens on stage rarely reflects the theoretical material.

The Petruzzelli was probably wise, therefore, to print only the briefest of notes on this occasion, for to recognise some of the characters' names added little to one's appreciation or enjoyment. It is one thing to assume an acquaintance with the story of *Cinderella*, or *Romeo and Juliet*, leaving dance to speak for itself, and another to presuppose a detailed knowledge of the life and works of Andre Malraux, even when fragments take pride of place over movement. The very title, *Mal raux ou la Métamorphose des Dieux*, induced a tendency to discuss the subject-matter rather than its treatment.

Bejart knew the theatre, so he must have realised that most of the speech would not carry, partly because of the unusually large auditorium and partly because of the imperfect diction of many of the dancers, several of whom are not native French speakers: Marc Hwang and Eiji Mihara took the central roles of Tchen and Kyo, for example. At all events, Philippe Lizon, Michel Gascard, Serge Campardon, and Jorge Donn as the Hero, were among those who were given the opportunity to shine as dancers, in the usual distorted classical idiom. Lynn Charles—a new acquisition, from John Neumeier's Hamburg ballet—performed the one solo female role, that of Death. Like all the women, she was elegantly dressed by Gianni Versace, whose contribution was by far the most successful.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

June 12–June 18

Opera and Ballet

LONDON

Royal Opera, Covent Garden: The dull, heavy, unstylish new production of Massenet's Manon by Rudolf Noelte has Julia Migenes, Neil Shicoff, Patrick Raftery and William Dooley mistreating the French language in the leading roles. Further performances of the La Bohème revival, with Ilona Tokody and Cynthia Heymon alternating in the title role; and *The Barber of Seville with Lucia* Valentini Terrani, Leo Nucci and Paata Burchuladze.

English National Opera, Coliseum: Shostakovich's Lady Macbeth of Mtsensk provides the company with one of its most brilliant and exciting shows of recent years. David Pountney produces, Mark Elder conducts; Josephine Barstow in the title role makes this an experience not to be missed. Also in repertory: Pountney's rubbish-dump Carmen, an empty, boring response to the piece, with Jean Rigby and Arthur Davies game but finally defeated in the leading roles; and Orpheus in the Underworld, notable for its complicated Gerald Scarfe sets rather than for genuine Offenbachian wit and satire.

NEW YORK

New York City Ballet (New York State Theater): More than 40 works by Balanchine, Robbins Peter Martins and other choreographers will be part of the two month-long 86th season, including two new works by Martins set to music by Handel and Michael Torke. Ends June 28. Lincoln Center (870 5570).

Metropolitan Opera: The 21st season of free park concerts opens with Tosca conducted by Garcia Navarro with Placido Domingo, Marilyn Zsan and Sherrill Milnes. Great Lawn, Central Park (Tue). Prospect Park, Brooklyn (Wed).

Paris Opera Ballet (Metropolitan Opera House): Rudolf Nureyev's new production of Cinderella takes place in Hollywood in the 1930s. Lincoln Center (362 6000). Ends June 28.

NETHERLANDS

Amsterdam, Muziektheater. The Netherlands Opera presents Die Fledermaus directed by Johannes Schaaf and designed by Andreas Reinhardt, with the Concertgebouw Orchestra under Nikolaus Harnoncourt, the National Ballet choreographed by Jürg Burth, and soloists Brigitte Poschner (Rosalinde), Werner Hollweg (Eisenstein), Christian Boesch (Frank), Eve Lind (Adéle), and Neil Rosenhein (Alfred) (Mon, Wed). (255 455). The National Ballet with Serenade (Balanchine/Tchaikovsky) and the premieres of two ballets created for this year's Holland Festival: Symphonies of the Netherlands (Van Manen/Andriessen) and To Bend or To Break (Van Dantzig/Meijering). (Tue, Thur). (255 455).

Amsterdam, Soeterijn Theatre (Linnaeusstraat 2), Bantu music and dance from Zambia (Tue), and Uganda (Thur). (56 88 500).

Amsterdam, Stadsschouwburg. Nina Wiener and dancers with Transatlantic Light (Wed, Thur). (24 23 11).

Amsterdam, Doelenzaal (Kloveniersburgwal 87). Mort de Rire, a new work choreographed by Mathilde Monnier and Jean-Francois Duroure for De Hexe Production (Tue to Thur). (239 112).

WASHINGTON

American Ballet Theatre (Opera House): Cynthia Gregory, Marianna Tcherkassky and artistic director Mikhail Baryshnikov return for the spring season of mixed programmes including company premieres of Sunset choreographed by Paul Taylor to music by Elgar. Kennedy Center (254 3770).

Wolf Trap: Houston Ballet performs Sleeping Beauty (Tue, Wed) and mixed programme (Thur). Vienna, Va. (703 255 1868).

VIENNA

Staatsoper: Wozzeck conducted by Abbado with Behrens, Gonda, Grundheber, Raffeiner, Langridge, Vienna Boys Choir; The Marriage of Figaro conducted by Zagrosek with Kemmer, Ghazarian, Sima, Lilova, Sasaki; Otello conducted by Fischer with Beckanova-Cap, Hintermeier, Atlantov, Cappuccilli, Kaloudof, Vienna Boys Choir; Tannhäuser conducted by Klobucar with Connell, Meier, Sima, Moll, Kollo, Hynninen. Vienna Boys Choir. (51 444/26 55).

Volksoper: Kleider machen Leute; Hoffmanns Erzählungen; Der Fremdenführer. (51 444/26 57).

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An eloquent warning

THE FAILURE of the Venice summit has made no visible dent in the complacency expressed in its communique. Everyone has agreed on policy co-ordination—even though only Japan is actually doing anything about it—the Louvre accord on exchange rates is in good order, West Germany is forecasting stronger growth, and we are soldiering on with the debt problem. Everything, by implication, will gradually come right.

This is not a mood which will survive an open-minded reading of the annual report of the Bank for International Settlements, which makes it plain, in clear and even witty language, that the world economic situation is deteriorating, and fraught with grave risks, and points the way to safer ground.

The central bank governors, whose collective wisdom it is supposed to represent, are no doubt familiar with the report. It should be obligatory reading for any ministers or senior officials who have not yet seen it. They may find that it entails some quite painful revision of fixed ideas, but in a literary sense the task should be almost a pleasure.

The risks are so familiar that they need only be listed briefly: a *disorderly collapse of the* dollar, a retreat into protectionism, and a cumulative world recession, and quite possibly all three.

Buck-passing

What the BIS stresses is that the present strategies, relying on monetary policy and exchange market intervention, cannot for long reduce these risks unless they are supported by policies which the market sees as likely to set the world on a path back to equilibrium. This is because there is no evidence that lower interest rates will offset the effect of declining demand in the high-exchange rate surplus countries, while intervention against the wind of market sentiment has limited credibility. It can buy time only for as long as the market believes that the time is being used constructively.

The current debt strategy is also designed to buy time, and the BIS detects "signs of fatigue" with it among both bankers and debtors. While the time has been used to some purpose in terms of debt reconstruction and the development of new policies for recovery, these measures will work only if the world market is growing at a reasonable rate. Meanwhile monetary policy in the US is partly paralysed by the risk of imposing any further burden on the debtors.

The solution, according to the central bankers, must involve an active use of fiscal policy. The surplus countries should be stimulating demand for purely selfish reasons; their economies have slowed sharply, and they face rising unemployment. The US should be taking active steps not only to cut its fiscal deficit, but to stimulate personal saving. Recent evidence suggests that the private sector in the US is doing much more to reduce that national tendency to overspend income than the Government has yet achieved.

The stress on enlightened self-interest rather than the rhetoric of co-ordination is shrewd; as the report points out, the attempt to harmonise policies often ends in misunderstanding and irritation—and, we might add, a great deal of co-ordinated buck-passing.

Starker language

The message will still be unpopular in many quarters, because fiscal rectitude is a general objective, and has all too often been over-simplified to mean *deficit targeting as the* primary aim of policy. This can have a deadly effect when growth and revenues fall short of expectations, and governments respond with deflationary measures.

As the BIS argues, one purpose of abandoning fine-tuning in a period of high inflation was to restore the cutting edge of fiscal policy. This is a pointless exercise if the weapon remains unused when it is needed.

Ministers may be tempted to see the whole report as an exercise in buck-passing by the central bankers, and cling to their doctrines. They should ask themselves instead one simple question: do the facts support the BIS's gloom over growth; and if they do, how can confidence be restored?

Because the question is one of confidence, rather than of filling some measured hole in world demand, the required policy changes could prove quite modest; as the *report* argues, once a change of trend is visible, so that private capital flows will willingly finance the remaining imbalances, the *correction can proceed quite* slowly and calmly.

There is dangerously little time, however, to initiate it. It and only be hoped that this report—and others, yet to be published, which may put the warning in starker language—will create the sense of urgency at the September IMF meetings which was so lacking in Venice.

Brazil returns to orthodoxy

BRAZIL this year has been earning for itself the unaccustomed reputation of possessing one of the worst records of economic management in Latin America. The country has been lurching, at times almost rudderless, towards uncontrolled inflation and a serious recession that threatened the very platform on which it could rebuild sustained growth after the shocks of the debt crisis.

It is therefore an enormous relief that drastic remedial action has been finally taken. The austerity package unveiled last Friday could scarcely be harsher and marks a return to financial orthodoxy which should assuage Brazil's international creditors, understandably concerned about the fate of interest payments suspended since February. These plans provide a *far more propitious* climate for Brazil to repair its relations with the International Monetary Fund, and it is encouraging that the two will *resume talks next week.*

Credit for the package must go to Mr Luiz Bresser Pereira, who inherited the difficult job of Finance Minister in April. *Since then he has been battling* to convince President Jose Sarney that Brazil cannot afford the luxury of high public spending, indexed wages and continued heavy subsidies of essentials like wheat, milk and alcohol.

Strengthened powers

There are a number of important differences between Mr Bresser Pereira's approach and that of his predecessor, Mr Dilson Funaro, the architect of last year's Cruzado plan. Although a price freeze has been reintroduced, far more flexibility exists and the way *out of the freeze* is clearly sign-posted. The inflationary system of wage indexation has been temporarily abandoned a step which, however unpopular, is a necessary element to insure against demand-fuelled inflation.

In terms of implementation the Central Bank has for the first time been given strengthened powers both in more general control of money supply and in monitoring expenditure by the state governments. Of equal importance have been the cuts in subsidies and the raising of utility prices. Mr Bresser Pereira has chosen to wield the axe on public expenditure, belittling the half-hearted attempts of the previous months. The message could be no clearer than in the move to shelve the controversial North-South railway project. This scheme had been actively espoused by *President Sarney* for seemingly no better reason than political patronage and a presidential desire for a testimonial to his rule.

Political skill

The new approach bears close resemblance to an IMF austerity programme. The main hurdle now will be how to accommodate Brazil's desire to dress up an IMF agreement in terms that satisfy a well-stoked sense of national pride. Brazil wants to be treated as an equal, not dictated to. In the circumstances the IMF should be able to reach an accommodation, conscious that the kind of medicine Brazil is being asked to swallow is at the limits of what is politically possible in a country profoundly *disillusioned* by the recent performance of the Sarney Government.

As it is, implementation of this package will require considerable political skill. No amount of good management is likely to produce quick results, but Mr Bresser Pereira can initially rely on the general sense of relief that a clear economic policy is in place. The trade unions are expected to protest, but it seems they have little support for a disruptive campaign. On the plus side, the vital Brazilian trade surplus is beginning to recover, which should allow more leeway with the country's creditors.

The *stakes are high. If this* package fails not only is President Sarney's future at risk but also the growth prospects of the Third World's largest debtor.

Disinvestment from South Africa

Inside, doubt takes root

FEW SUBJECTS have generated more heat and less light than the agonised debate over foreign disinvestment from South Africa.

In the West, anti-apartheid campaigners continue to apply pressure on companies to pull out. Last month even the Rev. Leon Sullivan, the US anti-apartheid leader who had argued for the reforming role of American business in South Africa, threw in the towel and called for total withdrawal. Inside South Africa, the white government remains adamant that it will not be hurried on the path to reform by foreign business pressure, even as white corporations rush to take over assets left behind by the fleeing Americans and British.

But behind these well-*rehearsed postures, there* are signs of change, most notably among the increasingly powerful black unions.

Last weekend's decision by *Ford to discuss with local trade* unions and its partner the Anglo American group the sale of its 42 per cent stake in the South African Motor Corporation *(Samcor) looks* like bringing some of these changes out into the open.

Over the last 18 months at least 78 US companies—*including blue chip names like IBM*, General Motors and Exxon, and a clutch of European companies, including Britain's Barclays Bank—have left South Africa. Their boards came to the conclusion that their South African subsidiaries were simply not large or profitable enough to merit the time, expense and trouble of *justifying* their continued presence to anti-apartheid activists.

What has become increasingly clear in this period, however, is that disinvestment in practice has neither weakened the South African Government, hastened the demise of apartheid nor improved the lot of those black South Africans supposed to be the beneficiaries.

Significantly, the most outspoken supporters of disinvestment and sanctions inside South Africa have been clerics like Archbishop Desmond Tutu and coloured theologian Rev Allan Boesak. Both have swayed *foreign television audiences* with pro-disinvestment arguments based primarily on the immorality of apartheid. Neither has tackled the thornier question of how disinvestment would improve the lot of blacks.

Ordinary black workers and the black unions have been far more circumspect. They have been hesitant to take up a clear position on a complex issue with dire potential consequences for their members.

The unions have watched with growing dismay as company after foreign company has sold its assets either to big South African groups or to *white South African managers* by way of leveraged buy-outs. As a US diplomat noted wryly, "The first thing that happens when the American companies *leave is that their successors* withdraw from the list of Sullivan Code signatories." The Sullivan Principles outline a voluntary code of US corporate behaviour with the *aim of* removing discrimination.

Up to now the unions have had little or no say in the actual pattern *of* disinvestment, and played little or no part in the negotiations. Coca-Cola and Exxon were among few departing companies who made an effort either to ensure that their departure would provide new opportunities for black businessmen, as with Coca-Cola, or set up trust funds to maintain spending on social and other programmes, as in the case of Exxon.

General Motors' move last year to sell its Port Elizabeth subsidiary to local white managers was an event which galvanised the trade union movement into taking a closer look at disinvestment.

Faced with the reality that disinvestment in most cases led merely to the transfer of ownership from foreign companies operating under the Sullivan or European community codes of behaviour to South African companies under no such restraint, the unions hurriedly sought advice on their options. A resulting report on disinvestment will provide the centre of debate at next month's annual conference of the Congress of South *African Trade Unions* (Cosatu), the largest black trade union federation.

The debate will not be an easy one. As Ford management is now finding out, the unions — themselves torn by doctrinal disputes between those who believe unions should concentrate on pay and conditions and supporters of a broader socialist-orientated political approach — are deeply divided over the implications of accepting shares, co-managing trust funds and pursuing other means to make workers part-owners in post-disinvestment enterprises.

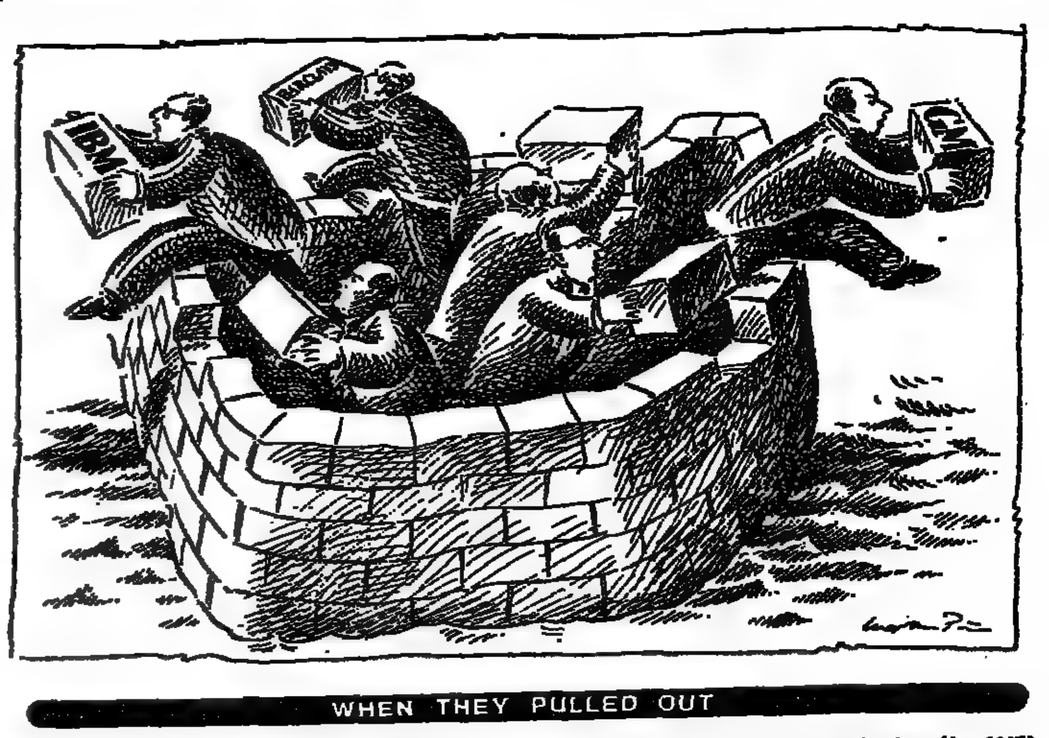
Ironically, *the pressure on* remaining foreign firms to join the exodus has increased even as black scepticism about its value have mounted.

Internal *political developments* and the actions of the South African government have added to the pressure on foreign companies—including *European-based multinationals* like Shell and BP which are increasingly being targeted by European anti-apartheid groups.

*It is difficult for such com*panies to point to their black advancement policies as positive forces for change in South Africa when the result of the recent *whites-only election*, which returned the National Party to power with a large majority, has been to stiffen the Government's attitudes towards apartheid reform. It has told companies to obey the Group Areas Act, making it more difficult to house black executives in white suburbs, and introduced legislation which will oblige the multinationals to act as rent collectors.

Meanwhile the departure of US and other foreign companies has tended to isolate and weaken the voice of liberals

After the election, and the defeat of the business-funded Progressive Federal Party (PFP), Mr Botha told businessmen to stick to the business of business — and leave the much more complicated business of politics to the politicians.



WHEN THEY PULLED OUT

US COMPANIES	
Applied Power	(1986)
Ashland Oil	(1986)
Baxter Travenol	(Sept 1986)
Bell & Howell	(Feb 1986)
Blue Bell	(1985)
Carnation	(1986)
CBS	(1986)
Coca-Cola	(March 1987)
Computer Services	(1985)
Cooper Industries	(May 1986)
Delaware North	(May 1986)
Diamond Shamrock	(May 1986)
Eaton Corpn	(1986)
Eastman Kodak	(April 1987)
Exxon	(Dec 1986)
Fairchild Industries	(1986)
Fluor Corpn	(Dec 1986)
Ford	(Jan 1985-partial* further divestment under discussion)
General Electric	(April 1986)
General Motors	(Oct 1986)
General Signal	(1986)
GTE	(1986)
Honeywell	(1986)
IBM	(Oct 1986)
Macmillan	(1986)
Manpower	(1986)
Marriott	(1986)
Motorola	(Oct 1985)
Navistan	(Aug 1985)
Pepsico	(1986)
Pennwalt	(1986)
Philips Petroleum	(1986)
Playtex	(Nov 1986)
Procter & Gamble	(Sept 1986)
Revlon	(By end 1987)
Rohm & Haas	(May 1986)
Scovil	(1986)
SPS Technology	(1986)
W. R. Stamler	(1986)
Stanley Works	(1986)
Utah International	(1986)
VF Corpn	(1986)
Warner Communications	(Jan 1987)

Source: Investor Responsibility Research Center (table published on October 24 1986 updated)

UK COMPANIES	
Barclays Bank	(Nov 1986)
BICC	(May 1987)
Commercial Union	(partial)
Crown House	(Nov 1985)
Hill Samuel	(Nov 1986-partial)
Legal & General	(1986)
Leyland	(Feb 1987)
Alfred McAlpine	(Aug 1985)
MK Electric	(July 1986)
Norwich Union	(By 1989)
Prudential Assurance	(Sept 1986-partial)
Rank Xerox UK	(March 1987-negotiating sale of SA branch)
Smiths Industries	(1985)
Turner & Newall	(Mar 1987-partial)

Source: FT Research

From the short-term economic and narrow company point of view, however, dis*investment has been a windfall* for many South African businessmen

According to Mr Tony Bloom, chairman of Premier Milling group, "*South African* companies have been able to acquire technology, management skills, brand names and market share which would have been unobtainable otherwise or taken years to build. The assets have often been picked up at bargain, if not fire-sale prices."

In many cases, typified by IBM and General Motors, the departing former owners have guaranteed a continuing supply of components and technology, leaving behind what amounts to franchising agreements with the new owners.

General Motors, for example, will continue to supply over $200m worth of components annually to the new Delta Motor Corporation from its plants in Europe and Japan.

For the black union movement, disinvestment has been one of the most difficult issues they have had to face. Mr Jay Naidoo, general secretary of the Congress of South African Trade Unions (Cosatu), was one of those who supported dis*investment* as a non-violent means of speeding the end of apartheid. But he acknowledges that "the pressures expected from disinvestment have not materialised." The reason, he believes, is what he calls the sham nature of most disinvestment. "It is not disinvestment, it's warehousing. Foreign com*panies have maintained their* operations on a franchise basis," he says.

Only when disinvestment materialised as a transfer of ownership from foreigners to white South Africans were the first attempts made to ensure that disinvestment would provide business opportunities for black entrepreneurs. Belatedly Cosatu set up a special study group to thrash out policy guidelines and last month a Cosatu affiliate, the Chemical Workers Industrial Union (CWIU) came out with its own ten point "conditions for an acceptable disinvestment."

At one of the recently departed US multinationals, a black manager notes a *significant* change in attitude among the white South African managers who now run the company. Shortly after the changeover, he was called in by senior management who questioned whether his views on a future socialist South Africa were compatible with the aims and ethos of the company. "I detect a new mood now that the Americans have gone," he says, with some of the South Africans adopting a "not invented here" attitude to the affirmative action programmes of the old regime. "There is a new air of arro*gance," he adds.*

Anthony Robinson

NO SIGN OF A STAMPEDE AS THE REV SULLIVAN SWITCHES TACK

FORD'S DECISION to distance itself from South Africa is not *expected to cause a further* rush of US corporate disinvestment. The 200-odd US companies still operating in the country are increasingly regarded as a hard core of profitable enterprises that, for the moment, wish to remain.

But Ford's proposal to involve black employees in the ownership of its South African business is likely to give new direction to the debate over US corporate responsibility amid *uncertainty about the future of* the so-called Sullivan Principles.

Mr Sullivan still claims that the Principles have led to "a revolution in industrial relations for black workers that will never be turned back."

Mr Allen Murray, chief executive of Mobil, the US company with the largest operations in South Africa, said last week: "We will operate the Sullivan Principles without Sullivan."

Companies like Mobil, however, will remain under fire from more radical anti-apartheid groups such as TransAfrica, the articulate Washington organisation of *young blacks that staged a cam*paign of protests recently outside the South African embassy.

"The companies recognise *that they need some other* structure to maintain their credibility," says Mr David Hauck of the Investor Responsibility Research Center in *Washington*, a group that monitors US corporate investment in South Africa for institutional investors.

With over 100 US companies having announced the sale or closure of subsidiaries in the past 18 months, there is a growing belief that US corporate involvement is being reduced to a hard core. Although consumer products companies such as R. J. R. Nabisco, Johnson and *Johnson and Colgate Palmolive* still operate subsidiaries, the 20 largest US companies in South Africa now comprise mostly energy, mining and *manufacturing companies which* are both profitable and relatively invulnerable to US consumer pressure. These companies — such as Mobil, Caltex, *Minnesota Mining* and Manufacturing, Goodyear and Unisys—"are less susceptible to consumer pressure or enjoy a stream of income to protect them from consumer boycotts," says Mr Hauck.

Mr Murray of Mobil says: "*Im sorry but I don't think it's* right to pul out." He says that the Mobil subsidiaries, employing about 3,000 people, have been "a steady profitable *operation for a number of* years" which began integrating its workforce "long before it was fashionable. The main thing is that they did not lose their competitive zeal while they were concentrating on integrating."

Mr Sullivan claims that he *has support from institutional* fund managers who could sell off more than $100bn in the stocks of companies that refuse to quit South Africa. Although some 60 colleges and a number of states and cities have disinvestment policies, this claim is regarded as optimistic by the anti-apartheid movement and exaggerated by fund managers. "I'd like to see his list," says Mr Hauck.

James Buchan

Men and Matters

Change of banknote

Terry Smith, the outspoken *bank stock analyst* at Barclays de Zoete Wedd who upset his employers in January by advising investors to sell Barclays shares, has changed his tune. His latest weekly report, which reached clients yesterday, was headed "Time to buy Barclays," a far cry from his previous comment that "There is something wrong with Barclays."

What has changed in the last five months?

Well, says Smith, Barclays has underperformed the market so far that it now looks cheap. And if all the other banks are doing well, Barclays ought to do better too; it is not all that *different after all.*

Barclays, too, is not as badly exposed to Third World debt as some of its rivals, so if all the UK clearers have to make huge provisions like the US banks, Barclays' "hit" would be quite small.

What Smith did not say was that there has been a big change at the top of Barclays since the January report. John Quinton has taken over as executive chairman from Sir Timothy Bevan, who retired. Did that have anything to do with it?

"This has nothing to do with personalities," was his unusually diplomatic reply.

Out of the blue

It is scarcely two and a half years ago that Big Blue threw Tokyo's stretched schooling-and-housing-for-foreigners markets into turmoil by deciding to shift *its Asia Pacific* headquarters from the US to Tokyo, moving some 270 people and their families into town at a stroke.

The talk then was all about decentralisation and being close to the markets concerned. Today, those virtues are still upheld. But there is also the matter of the yen, which is 80 per cent higher against the dollar than it was when most of those people moved in.

In IBM-speak, the present moves are due to the fact that the Hong Kong office is being upgraded to take on some functions of the Asia Pacific headquarters. There are moves taking place in both directions, with the net movement "in the low teens" in Hong Kong's favour.

Is that all? Well, no. A lot of US-based IBM people work for IBM's Japanese subsidiary too. IBM says they are mainly technical people and that their numbers rise and fall depending on IBM Japan's product development cycle. Coincidentally, that cycle is going down at the moment. Of the 259 on the roster at the end of last year, 80 are going home.

It would probably be too much to expect Toko's sky high rents to go down as a result of these moves, but there could be a temporary lull in the rapid upward trend, not to mention a few free places in the city's crowded international schools.

"Why don't we refer the proposed merger to the Take-over Panel?"

Long range

Only a week after the Venice summit, preparations are already well in hand for next year's gathering in Toronto.

Once described by actor Peter Ustinov as "New York run by the Swiss," Canada's biggest city has an ulterior motive for putting on a good show in 1988. City fathers hope that favourable impressions gained by politicians, bureaucrats and journalists attending the 1988 summit will boost Toronto's bid to host the 1996 Olympic Games.

Mayor Arthur Eggleton intends to show off his city's sports prowess by inviting the seven summit participants to a baseball game. Unfortunately for the mayor, a huge sports stadium with a fully retractable roof now being built in the shadow of the landmark CN Tower will not be ready in time for the summit.

Still, the visitors are unlikely to leave disappointed. Toronto *has matured in the past 20 years* from the staid centre of Anglophone Canada into one of the most cosmopolitan — but also cleanest and safest — cities in *North America.* Even the snow has melted by this time of the year.

In check

3i's bankers were poised to part with their first "enterprise cheque" of £30,000 to a lucky boffin for a toehold in his new bit of biotechnology.

The gesture was not philanthropic, said banker Geoffrey Taylor. The enterprise cheques would average £25,000 and there would be 10-15 available a year. It would be a genuinely novel attempt to win the confidence of impoverised dons and set them on a path to commercial prospects.

"Almost anyone" in 3i could sign an enterprise cheque, said Taylor. His team was working hard to keep it simple and flexible, even enshrining its principles in a document of only three and a half pages.

When would they be parting with the first cheque? "Very soon—even in hours," they promised.

It turned out they had been planning to do it when they launched the scheme yesterday morning. But they had failed to complete the paperwork in time.

Political taste

A sticky problem awaits the new Leader of the House of Commons, John Wakeham.

During the past year, MPs were provided with 850,000 white, self-seal, post-paid envelopes, and 2.55m gummed envelopes for addressing their solutions to constituents' problems.

But there were complaints about the quality of the self-seal variety (they refused to stick down); and about the "obnoxious taste" of the gummed envelopes.

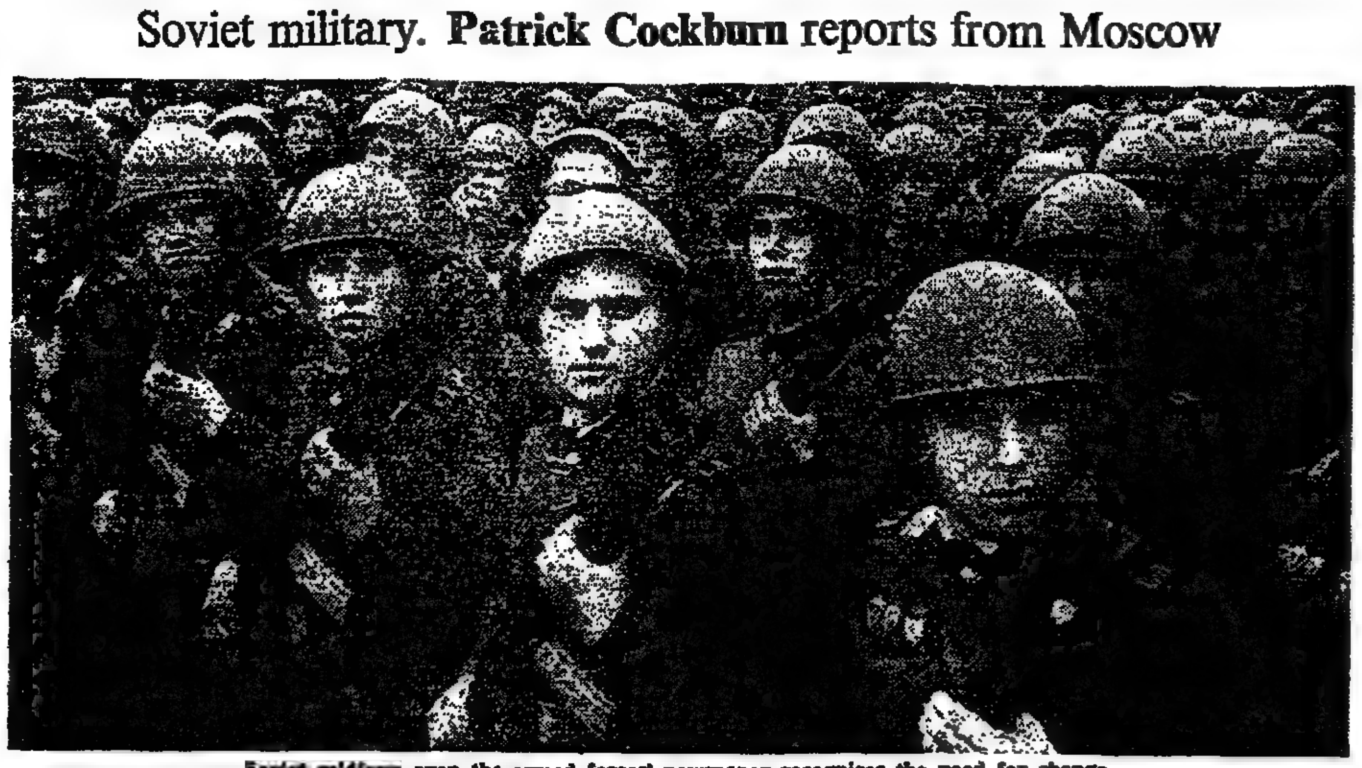
The former Leader of the House, John Biffen, took action before the general election to ensure that any *self-seal* envelopes in future do what they are supposed to do. But the plea made by Harry Greenway, Tory MP for Ealing North, *for a "more pleasant flavour of* gum" for the benefit of MPs' secretaries, has yet to be answered.

But help is at hand from Martin Young, a director of Emerson Envelopes of London. The company launched a range of "sweet-tasting envelopes" about 35 years ago but, for some unfathomable reason, they did not sell as well as expected.

The Commons' complaints suggest that their time may well have come, says Young. So he is introducing a new range of gummed envelopes in three flavours — peppermint, lemon and rum. If there should be a *public* taste for anything else, Young says he will consider providing it.

Observer

The antics of a West German pilot have provided Mr Gorbachev with an excuse to shake up the Soviet military. **Patrick Cockburn** reports from Moscow



Soviet soldiers: even the armed forces' newspaper recognises the need for change

A tactical retreat

FOR A few days after Mr Mathias Rust, the 19-year-old West German pilot, had landed *his single-engined Cessna light* aircraft in Red Square, Soviet officials were inclined to treat the affair as something of a joke.

It was only after the *Politburo* retired Marshal Sergei Sokolov, the Soviet Defence Minister, and sacked Marshal Alexander Koldunov, Commander-in-Chief of Air Defence, *for failing* to stop Mr Rust that Soviet spokesmen began to treat the affair as a grave threat to Soviet security.

The vigour of the Kremlin's response can be only partly explained by outrage at another failure by Soviet air defence. The real reason for taking Mr Rust's escapade so seriously is that it provided an excuse to reorganise the Soviet High Command.

Marshal Sokolov, 75 and part of the military leadership in Moscow since 1965, was very much of the pattern of elderly senior officials inherited from the Brezhnev era, whom Mr Gorbachev has been replacing wherever possible. Marshal Koldunov, the other casualty of the debacle, may already have had a mark against him as head of Soviet air defence in 1983, when one of its planes shot down the Korean airliner KAL 007 with the loss of 269 lives.

To drive home the message that top officials, including members of the Politburo, are accountable for failure, the Soviet news agency Tass even reported approvingly an interview given by Mr Zbigniew Brzezinski, *former* National Security Adviser to President Jimmy Carter, and long among the Kremlin's least favourite people. It quoted him as saying: "The Soviets have done what *the American High Command* and political leadership has not had the guts to do—namely, fire the top military men when there is a significant setback."

Nor was the departure of the two marshals the end of the affair. Recently, the daily newspaper of the armed forces, Krasnaya Zvezda (Red Star), said the same deficiencies in organisation and competence exposed in air defence were also to be found in the fleet and ground forces.

"We cannot take one step forward if we do not learn to work in a new way to overcome stagnation and conservatism in all their forms," the newspaper warned.

Exactly what *perestroika*, as Mr Gorbachev's reorganisation programme is known in Russian, means for the Soviet High Command and the 3.7m servicemen is unclear, but it is evident that the position of the armed forces as an institution in Soviet politics and society has changed over the past two years.

It now has less influence on Soviet security policy and foreign policy. It also looks less well placed to urge the claims of weapons procurement against investment in the civilian sector.

The evidence for this is the ease with which Mr Gorbachev, in pursuit of a disarmament agreement with the US, has felt able to offer substantial reductions *in Soviet nuclear and conventional* arsenals without any sign of military opposition.

This is partly a matter of personalities. Mr Gorbachev, with Mr Anatoly Dobrynin, ambassador to Washington for 24 years until brought back to become Party Secretary for foreign affairs in 1986, and Mr Eduard Shevardnadze, Foreign Minister, appear to take all the key decisions on foreign policy. Compared to them, Marshal Sokolov, never a full voting member of the Politburo, was always a lightweight.

Greater *concentration of* policy-making at the centre, in the Politburo and the Party Secretariat, has been the trend in all branches of government under Mr Gorbachev.

A further reason for the decline in the power of the armed forces is that Mr Gorbachev and the men around him believe that the military balance with the US is stable, despite the growth in US defence budgets since the late 1970s. Estimates by the Central Intelligence Agency put the proportion of the Soviet gross national product devoted to defence at between 15 and 17 per cent, but say the rate of growth has slowed since the mid-1970s.

Some senior Soviet officials have argued that efforts by the Soviet military to match each new weapons programme dreamt up by the Pentagon would not necessarily add to Soviet security. According to them, the real danger lies in bleeding the civilian economy to pay for more weapons.

Not all armed forces chiefs agree with this assessment. Marshal Nikolai Ogarkov, Soviet Chief of Staff, said in an interview in 1984 that it was new, high technology conventional weapons—not nuclear missiles—*which were revolutionising* warfare. But these are also expensive and, when the Marshal was mysteriously dismissed later that year, Pravda and Krasnaya Zvezda both carried editorials saying social programmes must not be sacrificed to security needs.

On coming to power in 1985, Mr Gorbachev therefore inherited policies in which the armed forces were playing a reduced role. The military intervention in Afghanistan in 1987, under the overall command of Marshal Sokolov, had become a running sore. The army could claim that the politicians had got them into the mess, but the failure of the *115,000-strong* contingent to crush the anti-government guerrillas did not increase the military's prestige in its first prolonged conflict since 1945.

In Afghanistan and other regional struggles Mr Gorbachev's instinct has been to do enough militarily to hold the line, while looking for political success. Thus the government ceasefire in Afghanistan, inspired by Moscow, strengthens Kabul's political position, though it is doubtful whether it will do much to end the war.

It is also significant that the expansion of the Soviet warm water navy has slowed. This does not mean that the USSR under Mr Gorbachev is less interested in its influence in the Third World, but that its approach is more political.

The new way reflects the views of a new generation. Much of Mr Leonid Brezhnev's Politburo had come to the fore during the Second World War. Mr Gorbachev, by contrast, was too young for war service and has never been in uniform.

This generational change is not confined to the top. The Soviet army plays a much larger role in the life of Soviet citizens than it does in the US or Britain primarily because all Soviets are liable to be conscripted into the armed forces for two years (three years if it is the navy or border guards).

But dislike of the draft is increasing. At a discussion organised by the weekly newspaper Literaturnaya Gazeta, one scientist described it as "stupid and shortsighted" and other scholars asked: "Whom does our society need more—soldiers or young scientists?"

The question has become all the more relevant because students are no longer exempt from the draft. Before the 1980s, the majority automatically became non-commissioned lieutenants on graduation and never had to serve. But the fall in the birth rate—and accusations that the elite were dodging service in Afghanistan—put paid to this.

A more traditional view of military service has been put by General M. Gareev, deputy chief of the armed forces' general headquarters. Writing in the same newspaper he complains *of certain scholars expressing* "a negative attitude not only to conscription for students, but to service in the armed forces in general."

The armed forces are unhappy about some aspects of their position in Soviet society and about losing influence over policy formation, but this alone would not be enough to provoke a backlash against Mr Gorbachev. For a start, the Soviet military as a separate institution, has less leverage in the Kremlin than the Pentagon has on the White House. The early Bolsheviks, after 1917, feared the rise of a Napoleon figure at the head of the army. The fact that the Communist Party is organised under military discipline ironically give the military a less distinct identity.

This does not mean that armed forces revolt is not feasible, but that it would only have real force in support of a much bigger backlash, probably on economic issues, against Mr Gorbachev by a majority of the Politburo and the Central Committee. There is no sign of this happening.

But there are rumblings in the party and military leadership that concessions on arms are interpreted in Washington as evidence of weakness, and that all Mr Gorbachev's initiatives have yet to produce anything.

None of this looks very serious because although there have been no great successes, there has been no great disaster. A successful summit in Washington later this year would be taken by the leadership in Moscow as proof of parity with the US which they feel eluded them during the first period of detente between 1972 and 1977.

In the long term, an easing of the defence burden on the Soviet economy is essential if *Mr Gorbachev is to produce the* surge in growth that he wants. Earlier this year, he said the Soviet Union would spend enough to defend itself, "but we shall not take a single step over and above the demands and requirements of sensible sufficient defence."

The dismissal of the two marshals for failure to stop Mr Rust shows the armed forces are expected to provide this defence — but through better organisation rather than a larger share of Soviet resources.

Lombard

An excess of reticence

By Haig Simonian in Frankfurt

FINANZPLATZ Deutschland—Germany as a financial centre—is the catchphrase on every bankers' lips here when it comes to describing their hopes for the development of the country—principally Frankfurt—as an international financial capital to rival London, New York and Tokyo.

Yet for all their financial reforms and doors opened, German bankers often seem to be governed by a conservatism and herd instinct that sit ill with their international ambitions.

Those are unquestionable. Every day Frankfurt looks more like a continental Wall Street — *skyscrapers and all* — while the use of English financial jargon has become almost *de rigueur*. And pity the yuppie banker not seen clutching a copy of the Financial Times, *a symbol not only of his* international-mindedness but also his proficiency in English.

Cut a little deeper, however, and the mentality in Frankfurt can often seem more akin to Tokyo than *New York*.

Not stepping out of line, at least in public, is the most obvious symbol of that kinship. And German conformism, as Japanese, is often combined with a strong *sense* not to *push* oneself forward.

Of course, bankers are prudent the world over, and the anxiety not to be caught wrong-footed can be as strong on Wall Street as it is in Tokyo's financial district.

But that reticence is not only more pronounced in Germany, it is often linked to a sixth-sense not to offend the country's big three banks: Deutsche Bank, Dresdner Bank and Commerzbank.

Take two recent cases of senior bankers asked for brief interviews to form the basis for short profiles in the Financial Times.

Such interviews, usually accompanied by a small photo, are bread and butter in London and New York, where moneymen would normally jump at the chance to sound off, get their picture in the paper—and win a little free publicity for their companies.

Not so in Germany, it seems. Occasional quotes in articles are all very well, but the thought of appearing too prominently in the pink pages brings the shutters down.

One senior private banker only *agreed to an interview* after repeated assurances that all three heads of the country's big commercial banks had already had their say. "They do not like it if they see others *come forward*," *he explained*.

Canny business sense, perhaps, coming from an old hand with years of experience living in the shadow of Germany's banking giants.

But commercial savvy hardly explains the similar reluctance of the head of a semi-public financial institution, who is widely tipped as one of Germany's rising financial stars.

No amount of gentle persuasion could overcome his inhibition, which was largely based on the ill-effects a profile might cause elsewhere—notably on the top floors of the big three banks' skyscrapers.

The instinct not to offend goes right up the management ladder. Unfortunately, the upshot is often journalism of *stifling tedium. For when new* faces are reluctant to be portrayed, the familiar mugs of Messrs Herrhausen, Roeller and Seipp of the Deutsche, Dresdner and Commerzbank respectively, tend to come instead, with their usual worthy, but seldom eye-catching, words.

It may just need a campaign to liven things up. But German bankers' conformism may bode ill for Frankfurt's international financial ambitions in the longer term.

A host of economic fundamentals makes it probable that Germany's influence as a financial centre will grow.

But German bankers' instinct not to cause offence in higher places, which is more typical of a small provincial market than a *first class financial centre*, could become a serious disadvantage.

Brushing up their image—and self perception—may be a useful first step for many German bankers. And finding oneself in the paper—in the right circumstances—should be seen as an advantage rather than a handicap. Imagine being turned away from a meeting with the boss of Goldman Sachs or Salomon Brothers on the grounds that his counterpart at Citibank might be a more appropriate person to talk to.

Letters to the Editor

Joining the EMS

From Mr H. Flight,

Sir,—While full EMS membership is certainly not an instant or complete *inflation discipline* it should, however, make a substantial contribution to reducing UK inflation further and to maintaining it at a stable European level. A variety of factors causes/costs of living inflation. For an economy, such as the UK, a depreciation of the exchange rate is more likely to unleash wage cost inflation. Wage cost push inflation has abated gradually with the reduction of trade union power and the persistence of unemployment. There is no reason why it should not abate further as expectations of sustained lower inflation gain increasing acceptance. A stable exchange rate against our major tarding partners is likely to be a major contribution to this process, inevitably pegged against the currency of the EMS member with the lowest inflation rate(DM).

The events of the last decade, as focused on in the Croham report, have readily demonstrated the importance to the UK economy of a correct trade equilibrium exchange rate against our EEC trading partners. The UK annual non-oil trade deficit of approximately £10bn which developed between 1978 and 1986 was almost exactly equal to the UK trading deficit with other EEC countries. It is no accident that British industry and employment have revived *substantially* since last autumn following the substantial depreciation of sterling against EMS currencies which occurred during the first three quarters of 1986.

As stable as *possible* an exchange rate in relation to the currencies of a particular country's major trading partners is self evidently important to major investment decision's. A business project which may be competitive at today's exchange rate can easily become wholly uncompetitive in a year or two's time, if the exchange rate appreciates significantly. The volatility of exchange rates has surely been a major drag on investment and a major cause of the huge growth of international liquidity.

There are *major lines of* argument to substantiate the view that sterling's full membership of the EMS, at a correct competitive exchange rate of around DM 2.9, would help to consolidate the economic progress achieved in the last six years; would exert continuing downward pressure on UK inflation and would of itself stimulate economic advance partly as the result of a greater degree of currency stability and partly, in due course as the result of significatnly lower sterling interest rates. With a more dynamic UK economy, a sustained lower rate of inflation; an external position well buttressed by massive international investments and the major beneficiary of Japanese and US physical investment in Europe, the UK should surely have an interest rate structure somewhere between that of Germany and France?

Howard Flight,
Guinness Flight Global Asset Management,
32 St Mary at Hill EC3.

A clearing union

From Mr J. Weiner

Sir,—It would be presumptuous to try to improve on your Editorial on the lessons of Marshall (June 8) in the light of the dismal economic prospects which face the world today. It is, however, only too easy to forget that the prospects in 1947 were much bleaker although the essential problems were much simpler.

But when you say that the chief lesson of Marshall at present is that the adjustment burden "in the global system" (sic) should fall not only on the debtors but also on the creditors you omit to mention that we have no such system properly defined.

Is it too much to hope that our summiteers sooner or later will face up to the transparent myth of national autonomy in an increasingly interdependent world and establish a proper system to match the liabilities *of the debtors against* the assets of the creditors. They need look no further than to Keynes' proposal for a clearing union to give them the outlines for the kind of system the world now so badly needs.

John M. Weiner.
Brunsgreen,
St Leonards,
Nr Tring, Herts.

Marshall Plan for debts

From Mr R. Stead

Sir,—You do well to remind us (June 8) of the benefits American generosity brought to the whole world with the Marshall Plan. Not least those most prosperous of nations, the once defeated Germany and Japan.

Today it is their turn to repay America, and in their own interest they should do it by *organising their own* "Marshall Plan" for the Third World.

I say "in their own interest" because failure could lead to the "Doomsday" forecasts materialising as debtor nations collapse under the weight of interest payments and spiralling domestic inflation and the banking system reels under the effect of massive bad debt. Meanwhile, German and Japanese industry, priced out of other developed markets by the rise of their currencies will, like all of us, have no Third World markets to sell to.

A massive gift of yen and D-Marks would therefore not only be a nice way to say "thank you" for the help they once received, but would ensure a continuing market for the products of their industries.

It seems that God's law (love your neighbour) is, as always, for man's benefit really.

Richard Stead.
Eileen Shona,
Acharacle, Argyll.

High European air fares

From Mr A. Lucking

Sir,——Unfortunately Mr Sawers (June 11) has misinterpreted my letter. I too have been pointing to the doleful results of low staff productivity in European airlines. And ten years ago, I too was amongst those preaching simple competition amongst European airlines as our salvation, but the near failure of recent efforts to introduce it has led me to look for other approaches.

I believe it is unrealistic to expect that the lowest cost airlines, those based in the Far *East*, will be permitted to take over the industry, as they would under conditions of open competition. Nations have to have contingency plans for their individual emergencies. For *example, there could be acute* danger to Europeans following outbreaks of anarchy in southern or Francophone Africa. A Falklands-type operation could become necessary again. QANTAS was used to evacuate Darwin after cyclone Tracy, carrying around 700 people in each 747. Airlines are the national civil reserve air fleet, and indeed this is the significance of the "N numbers" on US aircraft. A threat to the Gulf oil, or from the 95 Warsaw divisions in Eastern Europe, the mightiest armoured *force the world has ever seen* (10 times as many tanks as Von Runstedt had in 1940), would demand mobilisation of the western airline's fleets to ferry reinforcements locally, and across the Atlantic.

Within Europe, we have the further problem that wage levels in Switzerland, for example, are up to three times those in the UK. My solution for Britain is "country of origin" fares, forced down towards the cost levels of efficient UK airlines by competition between them. Where Britain's share of capacity is limited by Continental political obstacles, it should be divided between British Airways and another UK carrier. While monopolising the UK share, BA has demonstrated that it is too preoccupied with intercontinental profit considerations to provide us with cost based local services. Probably the cost per *London-Paris passenger is £60-£65*, yet BA makes little profit charging the local traffic £81 Economy and £100 Club, because of revenue dilution, and cross subsidisation of discount traffic.

A. J. Lucking.
Flat 20,
17 Broad Court,
Bow Street, WC2.

Defence R&D

From Mr C. Evans

Sir,—David Fishlock's article about defence research and development (June 9) attributed remarks to me about Fairey Engineering which, I consider, gave an unfair picture of the company's relationship with the department, and suggest that the company has not been prepared to puts its own money at risk.

To put this matter in its proper context, I would like to put the following on record. There has, *in fact*, been close cooperation over many years between the Ministry of Defence and Fairey in the very successful development and production of the world-beating *medium girder bridge*, which has led to substantial overseas sales and the payment of royalties to the MoD. We also recognise in MoD that substantial company-funded investment in *production tooling* and further development was made by Fairey to achieve these sales.

As a consequence of the progressive reduction in recent years by MoD research establishments in development work and their concentration on research activities, the department has been exploring with a number of companies opportunities for joint programmes of medium- to *longer-term* research. As part of this exploration, we have discussed with Fairey whether it might wish to join with us in joint research into new materials for military bridging. Fairey's response has been to express interest in the exploration of these new technologies and these discussions are still continuing.

I hope that this additional background offers a more balanced picture of the general relationship between the Fairey company and the Ministry of Defence.

Colin R. Evans.
Procurement Executive.
Ministry of Defence
Royal Armament Research and Development Establishment,
Chobham Lane, Chertsey
Surrey.

FINANCIAL TIMES

Tuesday June 16 1987

Robert Thomson finds business brisk at a border crossroads

China's back-door trade thrives

THE BUSTLING Sunday bazaar in *the silk road city of Kashgar bears* the marks of what some locals call the "open back door." Uighur merchants – the Moslem, Turkic speakers who predominate – have Pakistani cigarettes laid out on mats, alongside hair remover that promises: "If fail to remove the hair, price will be returned."

As yet, the "open back door" is not open wide enough for a disgruntled Chinese customer to cross the border for a refund, although Pakistan is only 500 km away and the Soviet border is 160 km from this oasis, where the streets are lined with kebab sellers and the Moslem call-to-prayer echoes through the city.

The Xinjiang Uighur autonomous region, the province in China's far west, *has attempted to take advantage* of the thaw in Sino-Soviet relations and the opening of the Karakoram Pass to Pakistan by pushing ahead with road and rail development that will enable informal border trade to burgeon in coming years.

Trade between Xinjiang and the Soviet Union resumed in 1983 after

a 23-year lapse. The region had fashioned an agreement in 1960 for border trade, but Peking and Moscow fell out over ideological and military differences and the pact collapsed.

Mr Gao Neiren, a director of Xinjiang's Bureau of Foreign Economic Trade, said total barter trade between the autonomous region and eight districts in the Soviet Union had grown from SFr 85m ($57m) in 1983 *to SFr 100m last year*, although that was down on the 1985 figure of SFr 147m.

"The fall was because the exchanged goods are very different. It depends on our needs and their needs at the time," said Mr Gao, who expects that the figure will rise significantly by the end of the decade. Chinese exports consist of leather goods, cotton, hops and light industrial products, while imports from the Soviet Union include trucks, cement, steel, heavy machinery and refrigerators.

Local barter trade with Pakistan has grown on average by 10 per cent annually in recent years and in 1986 reached $250,000, although it is expected to increase substantially when improvements on the Karakoram *Pass road are completed in the* next year or so.

At present, Xinjiang and Pakistan representatives meet around the middle of the year, with each region hosting alternate negotiations. Mr Gao Nairen said last year's talks were more difficult than most because the Pakistani representatives raised prices unreasonably.

Cigarette prices, he said, were lifted 400 per cent when he and the other Chinese officials began the bargaining session. After the negotiations are concluded, the two sides generally agree that convoys of Chinese trucks will carry the Yinjiang side of the deal to Pakistan and return loaded with Pakistan's barter goods, which are mainly textiles, herbs, and cigarettes.

Mr Ahmet Jiang, the director of Kashgar's planning department, said the city's first joint venture was likely to be with a Pakistani company for the construction of an $8m hotel. He, too, was confident that "we will have more trade when the roads are better."

Xinjiang is also beginning to exploit the Moslem connection with the Middle East and has already arranged limited live sheep exports to the United Arab Emirates. Senior Moslem officials have visited slaughtering facilities in the province and found that they accord with the doctrinal specifications, although local officials realise that until the quality of *local sheep is* improved, exports will remain limited.

Second Channel Tunnel 'possible'

By Ralph Atkins in London

CASH generated from the Channel Tunnel could be used to finance a second fixed link early next century, Mr Alastair Morton, co-chairman of Eurotunnel, the Anglo-*French Channel Tunnel Consor*tium, said yesterday.

A survey of potential traffic flows conducted *for* Eurotunnel shows that the volume of cars and trains using the link could be greater than originally anticipated. The extra revenue generated could allow the consortium to repay its loans and fund a new project.

"We believe that *traffic forecasts* show sufficient utilisation to make it inevitable that early next century there will be a need for a further tunnel," said Mr Morton.

The latest forecast is more optimistic than the estimates that Eurotunnel used before it raised £200m ($330m) from institutions in October, 1986. Details of the survey have not been released.

Eurotunnel is now waiting for the Channel Tunnel Bill to complete its parliamentary stages and for the treaty to be ratified by the French and British governments.

Eurotunnel will then have a concession lasting 55 years that includes the right to build and operate a second tunnel if it is thought viable.

However, Mr Morton said no firm decision to build a second link would be taken until the first was *operating successfully.*

Following Royal Assent for the Bill, expected in July, Eurotunnel hopes to raise £75m from existing investors to fund operations until the end of the year. In November an international share issue is expect*ed to increase this to about £750m* of which about half will be raised in the UK.

This will be supplemented by £4bn lent by 40 international banks. Construction of the link is expected to begin at the end of the year and be completed *in May 1993.*

Plans for the first link consist of two 50km rail tunnels and an access tunnel. Cars will be carried on shuttles operated by Eurotunnel.

The second link could be built for either car or rail traffic depending on demand. Eurotunnel *anticipates* an increase in the volume of Britain's freight carried by rail following the opening of the first link.

Speaking at a *lunch* organised by Construction News yesterday, Mr Morton said confidence in Eurotunnel had been renewed after a struggle to complete its equity issue in October.

Thatcher shuffles junior ranks to boost social policy effort

BY PETER RIDDELL, POLITICAL EDITOR

FAR-REACHING changes have been made in the middle and junior ranks of the British Government to *sharpen presentation in key social* policy areas.

During the run-up to last week's general election, which saw the Conservatives returned to power with a large majority, there were frequent Opposition criticisms of *what was perceived to be an "uncaring"* attitude.

Criticism then focused on high unemployment, the National Health Service and the plight of the homeless.

Most of the ministerial teams have been changed at the *Depart*ment of Trade and Industry, the Home Office and the Department of the Environment.

At the Trade Department only two ministers remain from the pre-election team in the Commons of six. *Of the ministers of state, only* Mr Alan Clark, Trade Minister, has not been dropped. Despite his controversial stand on many aspects of government policy, Mr Clark's reappointment can be seen as an endorsement by Mrs Thatcher, the *Prime Minister, of his tough line in* trade negotiations, particularly in relation to Japan.

The other two ministers of state, Mr Geoffrey Pattie and Mr Giles Shaw, have both left the Government, Mr Shaw at his own wish.

Mr Michael Howard, the under*secretary for corporate and con*sumer affairs, has been promoted to become Housing Minister where he will deal with this autumn's major bill to revive the rented housing sector. His successor is Mr Francis Maude, previously a government *whip and a barrister specialising in* criminal work.

The other newcomer to the Trade Department is Mr Robert Atkins, who has taken a close interest in the aerospace and commercial vehicle sectors and has been parliamentary private secretary to *Lord* Young. Mr John Butcher, the other junior industry minister, remains.

Changes have also been made at the Treasury where Mr Peter Lilley, a stockbroker and parliamentary private secretary to the Chancellor of the Exchequer, comes in as economic under-secretary. He replaces Mr Ian Stewart who moves over to the Ministry of Defence.

The defeat of three Scottish Office ministers last Thursday has led to an extensive reshuffle, though one exiting *minister, Mr Alick Bu*chanan-Smith, previously Energy Minister of State, declined a post there and has left the Government.

Apart from Mr Pattie, several long-serving ministers of state in other departments have been dropped, including Mr Rhodes Boyson *(local government), along with* a number of under secretaries, including Mr Dick Tracey (sport), and Mr Alistair Goodlad (Energy).

Otherwise, the main changes involve a shifting around of promising ministers of state to gain more experience. Mr John Patten, the previous Housing Minister, moves to the Home Office with responsibility *for law and order.* This has been dealt with by Mr David Mellor who goes to the Foreign Office as a Minister of State, taking over from Mr Tim Renton, who switches to the Home Office to handle immigration matters.

In the Department of the Environment, Lord Belstead, the deputy leader of the Lords and Agriculture *Minister, moves over to become Lo*cal Government Minister. Mr William Waldegrave remains to deal with green and countryside issues. Because of this department's heavy legislative load, additional under-secretaries are being *appointed, including Mrs Marion* Rue and Mr Colin Moynihan, who will become Sports Minister.

Election aftermath, Page 8; State sell-offs, Page 12

Conservative poll win fails to inspire London money markets

BY JANET BUSH IN LONDON

BRITISH financial markets continued to labour under post-election profit-taking yesterday and saw few signs of the fresh overseas investment fervently expected in response to the *Conservative Party* win.

Sterling has looked vulnerable since Thursday night and hopes of an early cut in base lending rates appear to have evaporated. Domestic money market rates moved up *yesterday by about ⅛ point.*

Even the equity market, which alone has made substantial gains on the Conservative victory, hitting new peaks on all major indices, has been boosted by domestic rather than foreign buying.

Commenting on the positive effect pre-election speculation had had on markets, one gilt-edged primary dealer said the market might have to wait another five years for some more good news. Foreign exchange dealers said there was a feeling UK markets had enjoyed their finest hour in the run-up to the general election.

Sterling yesterday came under pressure, not only against the rising dollar but also against continental European currencies, as foreign demand for British securities failed to materialise. *Another key factor* weighing against sterling is fear of Bank of England intervention against it anywhere near DM 3.00.

A disappointing 3.3 per cent fall in retail sales volume in May also undermined the pound yesterday.

It ended in Europe at DM 2.9775 compared with Friday's closing DM 2.9925 and at $1.6320 after $1.6520.

Part of the pound's problems have stemmed from the dollar's new-found popularity. A positive interpretation of Friday's US trade and producer prices figures has helped and dollar buying was further encouraged when Mr Kiichi Miyazawa, Japan's Finance Minister, said the Group of Seven leading industrial nations had agreed in Venice that the dollar had bottomed out.

There are signs of renewed Japanese interest in dollar instruments and switching into US Treasury bonds was cited as one reason behind substantial falls not only in the gilt market but also West German public authority bonds.

The dollar closed European trading yesterday at DM 1.8245 compared with Friday's closing at DM 1.8115 and at Y144.75 after Y143.80.

Gilts prices fell two points yesterday, pushing yields up to the top of their recent trading range at nearly 9 per cent on longer-dated issues.

Investors and market makers had gone into the election holding substantial stocks in anticipation of a revival of foreign buying. However, since the poll, the Japanese have on balance been net sellers of gilts.

On the equity market, the FT-SE 100 index closed 18.1 higher at 2307.6, a new peak, while the FT ordinary share index ended up 18.7 at 1786.6, also a record.

Money markets, Page 37; London stock market, Page 44

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	22	72	Dubrovnik	S	28	82	Malta	S	33	91	Rhodes	S	29	84
Algiers	S	26	79	Edinburgh	C	11	52	Manchester	C	11	52	Rio de J'o	C	35	95
Amsterdam	C	15	59	Faro	F	29	88	Manila	F	33	91	Rome	S	32	90
Athens	S	37	99	Florence	C	27	81	Melbourne	F	12	54	Salzburg	C	19	66
Bahrain	S	37	99	Frankfurt	R	20	68	Mexico City	C	25	77	San Francisco	S	19	66
Bangkok	S	33	91	Funchal	C	20	68	Miami	S	30	86	Seoul	S	26	79
Barcelona	F	22	72	Geneva	C	22	72	Milan	C	23	73	Singapore	C	32	90
Beirut	S	28	82	Gibraltar	S	23	73	Montreal	C	18	64	Stockholm	R	14	57
Belfast	F	13	55	Glasgow	C	12	54	Moscow	S	26	79	Strasbourg	C	17	63
Belgrade	S	33	91	Guernsey	R	11	52	Munich	C	15	59	Sydney	C	19	66
Berlin	R	20	68	Helsinki	R	15	59	Nairobi	F	23	73	Taipei	C	30	86
Biarritz	F	16	61	H. Kong	S	30	86	Naples	S	29	84	Tangier	S	19	66
Bombay	D	26	79	Innsbruck	F	23	73	Nassau	S	31	88	Tel Aviv	S	27	81
Bordeaux	C	14	57	Inverness	S	13	55	New Delhi	S	41	105	Tenerife	C	23	73
Brussels	C	15	59	Islamabad	C	24	75	New York	S	31	88	Tokyo	R	20	68
Budapest	C	26	79	Istanbul	S	28	82	Nice	S	25	71	Toronto	S	31	88
B. Aires	S	12	53	Jakarta	C	30	86	Nicosia	C	35	95	Tunis	F	31	88
Cairo	S	35	95	Jersey	S	17	63	Oporto	S	16	61	Valencia	F	25	77
Cape Town	C	16	61	Jo'burg	S	19	66	Oslo	R	16	61	Venice	F	26	79
Caracas	C	26	79	Lima	C	21	70	Paris	R	17	63	Vienna	C	27	77
Casablanca	S	21	70	Lisbon	R	20	68	Peking	F	29	84	Warsaw	C	27	81
Chicago	S	37	99	London	C	16	61	Prague	C	21	70	Washington	S	24	75
Cologne	R	13	55	Los Angeles	C	24	75	Reykjavik	C	10	50	Zurich	R	14	57
Copenhagen	C	14	57	Luxembourg	R	11	52								
Corfu	S	32	90	Madrid	S	21	70								
Dallas	F	25	77	Majorca	S	24	75								
Dublin	S	15	57	Malaga	S	25	77								

Readings at mid-day yesterday:

C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

BIS urges co-operation

Continued from Page 1

will be adjusted and co-ordinated to *that end.*"

Monetary policy measures could also only play a limited role, particularly as money growth is already high in many countries and there are signs of a re-emergence of inflation.

*BIS officials fought shy of recom*mending specific fiscal measures to be taken by the three major govern*ments.* For the US the principal requirement was that there should be credible cuts in the US public sector deficit.

Mr Alexandre Lamfalussy, BIS general manager, said a credible path was one which would bring the US *budget deficit below $100bn* within three to four years. The presently-targeted cut from $220bn to $180bn was, he said, a "credible beginning."

Mr Lamfalussy also termed Japan's Y6,000bn ($41.7bn) domestic stimulus package "quite impressive" and a "credible move towards what Japan ought to do."

Mr Godeaux said that in the US savings must be increased and goods must be produced that could be exported and could compete in the domestic market with imported products.

Japan and West Germany, by contrast, "must bring about a shift in the sources of their economic growth away from exports and towards a greater reliance than in the past on domestic demand."

Hanoi keeps the welcome mat ready for US

By Stephen Butler, recently in Vietnam

IN CENTRAL Hanoi, a large French colonial mansion sits empty except for a few caretakers. The gardens are trimmed and the shutters drawn. This, the Vietnamese *Government hopes, will soon be*come the US embassy.

The old house is a symbol of Viet*nam's diplomatic* and economic isolation from the West. As the Vietnamese economy staggers under hyperinflation and as Hanoi sets its sights on economic reform, that isolation is becoming more painful.

After fighting for many years to push the US out of Vietnam, Hanoi would now like nothing better than to welcome America back, and the motivation is not strictly economic. Hanoi needs a friendly power in the region to counterbalance its heavy dependence on the Soviet Union for economic and military aid and to counteract the deep hostility from China.

The root of Vietnam's isolation lies in the 140,000 troops that it stations in Kampuchea. Today, the diplomatic stalemate in Indochina *appears no closer to solution* than in 1978, when Vietnamese troops invaded Kampuchea, overthrew the Khmer Rouge government of Pol Pot and installed a new government headed by Heng Samrin.

The Vietnamese appear still not to grasp fully why the world is willing to overlook the atrocities of Pol Pot, refuses to recognise the new Government after nearly a decade, and instead continues to give the Kampuchean seat at the UN to a coalition government-in-exile that includes Prince Norodim Sihanouk as well as remnants of the Khmer Rouge.

General Tran Congman, editor of the Vietnamese Army daily, admits that at least 10,000 armed resistance forces are still operating inside Kampuchea; Western estimates put the figure much higher. The core of this are Khmer Rouge forces armed by China with the co-operation of Thailand.

Vietnam cannot seal the long Kampuchean border, and although the resistance holds no permanent bases, few areas outside the capital of Phnom Penh are secure.

Vietnam has repeatedly promised to withdraw its troops from Kampuchea by 1990, and many diplomats in Hanoi believe the Vietnamese have talked themselves into believing this. Yet the Vietnamese-backed Government in *Phnom Penh hardly* appears ready to provide the requisite security and stability on its own in the face of a hardened guerrilla resistance.

The conditions that led to the initial Vietnamese invasion could easily reappear because Vietnam says today it will never accept a government in Kampuchea that includes the Khmer Rouge.

Negotiations have never got off the ground because the Vietnamese refuse to talk to the Khmer Rouge. China will not enter into talks despite repeated Vietnamese requests and rather appears intent on rubbing Vietnam's nose into the ground.

This it does, in part, by tying *down hundreds of thousands of* Vietnamese troops on Vietnam's northern border, where the Chinese keep the tension high through constant infiltration and spying, periodic cross-border shelling and occasional full-scale attacks.

It is often said that Vietnam pays little for being stuck in Kampuchea. Moscow foots the military bill and maintaining the world's third-largest standing army helps Vietnam cope with high unemployment.

Yet these narrow considerations vastly underestimate the indirect cost. Vietnam has got little to show for the billion-dollars-a-year Soviet *economic aid programme,* a result of bad Soviet advice and gross Vietnamese mismanagement.

Vietnam *is desperately* poor and needs Western capital, technology and markets in order to develop the economy. US opposition has sharply constricted its access to these. Even Sweden, one of the only Western countries with an aid programme to Vietnam, *says it will cut* this off *if* Vietnam is not out of Kampuchea by 1990.

Some Western *diplomats now* believe an opportunity may exist for squeezing a compromise out of Vietnam, and perhaps weaning it from its dependence on Moscow. Vietnam seems to be almost openly inviting the US to come in to engineer this. But fundamental attitudes in the Vietnamese Government will still have to change.

"What the Vietnamese do not seem to understand," says a Western diplomat in Hanoi, "is that oth*er nations have security interests* too."

THE LEX COLUMN

BAA files its flight plan

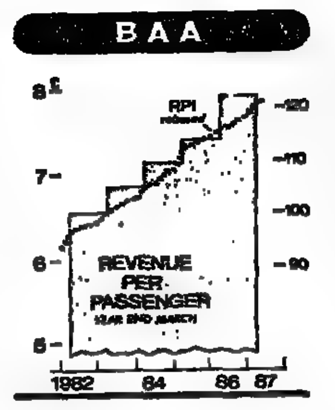
Over the next few weeks investors will be bombarded by the now-familiar run of privatisation announcements leading up to the BAA *flotation. Even without* a "bing, bong" preceding each one there is little chance of anyone missing the last call to board the flight.

The dilemma facing the Government is how to price the issue so that it succeeds, without handing the opposition a chance to suggest that Tory voters are being given a post-election thank-you present. At the same time, with the much larger water and electricity sales coming along it is important not to alienate the wider shareowners.

BAA's results yesterday looked pedestrian on an historic cost basis – pre-tax profits up from £122m to £124m – but that is a creditable per*formance given how badly its cus*tomers, the airlines, were doing through the Libya/Chernobyl season. This argues that BAA is a much less volatile profit producer than British Airways.

But, within the accounts, BAA reveals *how operational* gearing works in airports, too. Gatwick airport, where 17m passengers squeezed through a space large enough for 16m, showed trading profits up 47 per cent. At Heathrow, when Terminal 4 opened, the addition of capacity without proportionate revenue gains cut trading profits nearly 10 per cent. Moreover, when Terminal 4 starts generating bigger revenues the new Gatwick terminal will open.

Further ahead BAA must handle the tricky task of weaning airlines off Heathrow and Gatwick, where runway capacity is limited, and into Stansted without losing business to the Continent. All that calls for a rating somewhat below the market average. Around 14 times historic earnings would still raise £1.1bn or £1.2bn.



Aitken Hume

A dove brought news to Noah that the waters were receding; perhaps the 5.5 per cent stake bought recently by Guy O. Dove III brings similar indication of safety for Aitken Hume. Mr Dove is the latest in a string of investors – Lee Ming Tee and the Saudi Arabian Rawda Investments being the most promi*nent – to invest in Aitken after the* institutions, soured by frequent disappointments, had leapt for the exit route provided by Tranwood and sold in the market.

Aitken's revamped management, headed by the reassuringly named *Mr Constance, currently* appears confident there will be no takeover threat from any of the new stakeholders; NSR, the fund management arm which provides the bulk of profits, can effectively veto, as Mr Oppenheim discovered, any unwanted bid.

At least these figures indicate that Aitken, having leaned heavily towards the US for profits, has started to show recovery in the UK. But given the dramatic share price underperformance of the last 18 months, the institutions will want more than the £10m pre-tax likely this year to be persuaded that Aitken is flood-proof, when there are eminently seaworthy fund management vessels like M & G and Henderson on offer.

Williams Reed

"Momentum" and other such intangibles have long been highly valued by image-conscious acquisitive companies. No doubt part of Williams Holdings' full price (£260m) for Reed's paint and DIY division has been mentally tucked away as the *price of a post-Norcros bounce back;* when the shares are unfrozen tomorrow it will be possible to judge whether it has been money well spent in terms of market rating. A judgment on the industrial logic of the deal itself will take a little longer.

The future credibility of the Williams management depends upon it keeping *its promise of no dilution* (even this year) – and it is therefore a safe assumption that it will. But the historic exit multiple of 16.5, while not too excessive, does require earnings growth of at least 15 per cent to prevent that dilution. The buyer can point to the fact that the Reed companies' own management was prepared to go up to £240m fully geared and that one of Williams' best deals to date – Duport – was judged too costly at the time. *However, it will be more diffi*cult to treble earnings in two years at Polycell than it was at Rawlplug and regaining market share in paint against ICI could be a struggle.

The leaders of the failed buy-out are *disappointed but almost* all are staying on, relieved that the winner is not a rival paint-maker. The sellers deserve to look a bit smug and although, *immediately,* the interest from the sale price will barely cover earnings foregone the sale should provide further momentum to the Reed rerating.

Fimbra rules

Fimbra's rule-book, published yesterday, is the thick sandwich, but the crucial filling – the practice note on best advice guidelines – is still missing. The guidelines, *for in*stance *on surveying the market,* will apparently emerge "from time to time", and their commercial impact could be considerable.

Members of Fimbra must not recommend a life or pension policy unless they "are not aware of any life policy, pension contract or (as the case may be) collective investments which... would be likely to secure the investment objectives of the client more advantageously than the transaction to be effected or recommended."

Will this mean that an independent insurance broker must select life policies only from a handful of life offices at the top of the performance league tables? If so, a large proportion of the 100-plus life offices in the UK may have to close for new business unless they have direct sales forces.

On the other hand, if brokers need only inspect standardised projections (and if new life offices and new products are to get a look-in, there must be scope for recommending contracts without a past record) it is hard to see how clients can be sure they will be guided to the best performing contracts.

One thing is for sure. Any whiff of trouble surrounding a life office will cause brokers to avoid it literally for fear of their business lives.

SECTION II – COMPANIES AND MARKETS

FINANCIAL TIMES

Tuesday June 16 1987

Sosnoff abandons bid for Caesars

By Anatole Kaletsky in New York

THE LONG-RUNNING battle for control of Caesars World, the Los Angeles-based gambling and leisure company, ended yesterday with the withdrawal of Mr Martin Sosnoff, the New York investor who first became the company's largest shareholder four years ago.

Mr Sosnoff said he was discontinuing his $1.1bn tender offer, worth $35 for each Caesars World share, because the cost of carrying on the fight could no longer be justified after the recapitalisation plan recently announced by the company's management.

Under this plan the company will raise $960m in new debts from banks and the junk bond market and use the proceeds to pay a special cash dividend of $26.25 to each stockholder.

The stock in the highly indebted company will then trade at a price far below the $34¼ a share, down $¼, at which it was quoted yesterday lunchtime.

Mr Sosnoff yesterday expressed his approval for the financial provisions of the recapitalisation plan, saying that he was now "satisfied that all shareholders will receive substantial value when the plan is implemented."

But he denounced the "poison pill" elements which will render the recapitalised company virtually immune to hostile takeovers. He called on the management to abandon their proposed changes in corporate governance and said that he would then publicly support the plan's implementation.

Mr Sosnoff yesterday called the court's decision "erroneous," but said he would not appeal in view of the costs and delays this would involve. He added that he had already spent $30m in seeking control of Caesars World and that his efforts had therefore produced "virtually no gain" for himself.

Swedish Match advances 45%

BY SARA WEBB, STOCKHOLM CORRESPONDENT

SWEDISH MATCH, the Swedish conglomerate and the world's leading match manufacturer, showed a 45 per cent increase in profits after financial items to SKr 167m ($26m) in the first four months, compared with SKr 115m a year ago.

The increase was partly due to Swedish Match's recent acquisition of Pegulan, the West German flooring group and, to a lesser extent, of Wilkinson Sword, the matches and shaving products manufacturer.

Swedish Match said that it expected profits after financial items this year to show an increase on the 1986 figure of SKr 500m.

Sales during the first four months rose by 38 per cent to SKr 4.832bn, compared with SKr 3.548bn a year ago. Operating income rose 26 per cent to SKr 206m.

The stongest improvements in results came in the flooring and packaging business areas.

Tarkett, the flooring subsidiary, showed an 81 per cent increase in operating income to SKr 94m, while sales rose 131 per cent to SKr 1.883bn. The rise was chiefly due to the acquisition of Pegulan, although income from Tarkett's resilient flooring operations in North America and the hardwood flooring division increased.

The Akerlund & Rausing subsidiary, which designs and manufactures packaging, increased operating income by 21 per cent to SKr 34m, though sales slipped by 1 per cent to SKr 585m.

Results from the consumer products group, which includes matches, lighters and paper products, showed a sharp drop in operating income, down 59 per cent from SKr 58m to SKr 24m. Sales rose by 8 per cent to SKr 1.231bn.

Mr Peo Lindholm, head of finance at Swedish Match, said that Wilkinson Sword had made a positive contribution to the consumer products group, albeit during a very short period as the results were only consolidated at the beginning of April.

The consumer product group has experienced problems in both its match and lighter divisions, and the effect of recent restructuring measures have not started to show up fully.

Kluwer to merge with rival publisher

By Laura Raun in Amsterdam

KLUWER, the embattled Dutch publisher, plans to merge with its smaller rival, Wolters Samsom, in an effort to torpedo an unfriendly takeover bid from Elsevier, the Netherlands' second largest publishing company.

By Wolters Samsom's dramatic introduction as a "white knight" yesterday, Kluwer hopes to persuade shareholders to tender their common stock to a friendly partner instead of to Elsevier.

Besides the advantage of an agreed deal Wolters Samsom also plans to offer Kluwer holders a 12 per cent price premium over the Elsevier bid announced on Friday.

As a back-up, Kluwer issued Fl 20m ($9.9m) in preferred stock placed with Wolters Samsom yesterday. In future, Kluwer and Wolters Samsom, the Nehterlands' third and fourth largest publishers respectively, plan "substantial cross-participation" in each other's ordinary share capital.

Under Wolters Samsom's public bid, to be launched shortly, three newly issued Wolters Samsom shares will be offered for one common share of Kluwer.

Shareholders of Kluwer would get the equivalent of Fl 420 per share compared with Fl 370 from Elsevier, based on Friday's closing prices. Trading in Kluwer and Wolters Samsom was suspended yesterday.

It is not yet clear whether Elsevier will press ahead with its public tender offer, expected this week, although a sweetened bid seems quite possible.

Elsevier was undeterred last week when Kluwer issued preferred stock amounting to 51 per cent of the share capital and placed it in a friendly foundation, meaning Elsevier would own only 49 per cent of the company even if it acquired all the common stock.

PINOCHET GOVERNMENT PUSHES PRIVATE PURCHASING POWER TO THE FOREFRONT

Practical privatisation in Chile

BY BOB GWYNNE RECENTLY IN SANTIAGO

'Popular capitalism' is gaining a foothold as employees in Chile's service sectors become the first to buy shares in privatised companies. Pension funds are also being encouraged by the Government's reactivated privatisation scheme.

WHILE many governments in Latin America have been talking about the need to privatise, Chile has been in the forefront of those countries taking practical steps to put this policy into effect.

Since the overthrow of the Allende Government in 1973, the military *regime of General Augusto* Pinochet has been anxious to increase the private sector's role in the economy. This process was rudely interrupted by the 1983 financial crisis when the government was obliged to intervene in the running of Chile's two largest conglomerates.

However, in the past two years the privatisation programme has been resumed at an accelerating pace. In part this has involved hiving off companies that the Government found itself controlling as a result of the 1983 intervention. In addition, the Government has moved to privatise state companies whose formation pre-dated the 1970-73 nationalisations carried out by the Allende administration.

This is being done gradually with the utilities Endesa (electricity generation) and Chilectra (electricity distribution) and concerns such as Telex, CAP (the state steel company), Soquimich (nitrates) and CTC *(telephones), so that by the end of* the year these companies will have a majority of their capital in the private sector. Other companies such as Enacar (coal), IANSA (sugar), Entel (telecommunications) and LanChile (the state airline) will retain a dominant state stake.

To stimulate *Gen Pinochet's* concept of "popular capitalism", workers are being encouraged to purchase shares. For example, half of the steel concern CAP's capital has been taken up by employees. Often this share ownership does not require any capital from the workers, because under Chilean law retiring employees receive a lump sum corresponding to length of service. It is this lump sum which the workers are effectively investing in the privatised company. Workers gain if their shares go up (on retirement) while the company's long-term debt is reduced.

The other major source of privatising capital has come from pen*sion funds. Chilean employees are* now urged to make private arrangements for their retirement pension. These pension funds have been encouraged to invest in the privatised companies. For example, roughly one quarter of Chilmetro (a subsidiary of the utility, Chilectra) is now *held by pension funds.*

The Government has preferred to offload shares of individual companies in stages in order to test market reaction and to ensure that the price was neither under or over valued. Thus, Enmel had 30 per cent of its share capital placed on the market between last June and December.

Its shares were initially priced at 130 pesos (59 cents), but the price proved so attractive that by December the final portion was being sold on the market at 320 pesos per share. The latters' shares are now being traded at over 400 pesos, with pension funds purchasing more than half the market shares.

The state holding company Corfo, which manages the privatisation programme, determines pricing on the value of assets, the cost of replacement and an estimation of present and future business activity. Generally speaking, early evalu*ations have been low and the Gov*ernment has been criticised for selling off national assets too cheaply. For example, one of the electricity company, Endesa's power stations was sold to the I.M.Trust for $21m, 50 per cent below its straight forward replacement cost of $46m.

The privatisation of the two banks taken over during the 1983 crisis has also proved complicated. The Banco de Chile and the Banco de Santiago, formerly the two largest private banks in Chile, handed over unpaid loans to Chile's Central Bank along with most other Chilean banks.

The Central Bank bought these unpaid loans (*'cartera vendida'*) on the basis that all future profits of the banks would go to buy back the *'cartera vendida'*. The Banco de Chile and the Banco de Santiago are unlikely to finish buying back their *'cartera vendida'* until the 21st Century.

Cahouet expected to become Mellon chief

BY WILLIAM HALL IN NEW YORK

MR FRANK CAHOUET, the 55-year-old banker who has acquired a reputation for turning around troubled banks, is expected to take over as chairman and chief executive of Mellon Bank Corporation, the famous Pittsburgh-based banking group, which lost $60m in its first quarter and halved its dividend.

Mr Cahouet, who is best known for cleaning up the financial performance of Crocker National Bank so that Britain's Midland Bank could sell it to Wells Fargo, has announced his resignation as president of Federal National Mortage Association (Fannie Mae), the specialist provider of housing finance.

Several names have been canvassed for the chief executive's post at Mellon, one of the proudest names in US banking, including that of Mr Tom Theobald, the 50-year-old vice chairman of Citicorp, who was passed over for the top job when Mr John Reed became chairman.

However, some bankers are known to have been reluctant to take the job.

Shell and Fluor divide up Massey Coal

BY WILLIAM HALL IN NEW YORK

SHELL OIL and Fluor, the international engineering and construction group, have agreed to break up their jointly-owned Massey Coal Company, the ninth biggest US coal producer, and divide the assets between the two companies.

The joint venture was formed in October 1980 when oil prices were escalating and US coal production was being increased rapidly as energy users switched from oil to coal. However, as oil prices came under pressure and despite a sharp rise in production the industry has not been very profitable and coal companies have been restructuring their businesses.

Fluor will retain A.T. Massey, a leading US coal exporter acquired in the 1970s by St Joe Minerals, which was in turn acquired by Fluor in 1981 for $2.2bn. Fluor will also retain certain subsidiaries in Kentucky, Tennessee, Pennsylvania and West Virginia. In 1986 these operations produced revenues of $631m on the sale of 18.8m tons.

Shell Oil, which has substantial coal operations in Illinois, Wyoming and Ohio, will acquire three coal properties including the Marrowbone property in West Virginia and Wolf Creek in Kentucky. It will also acquire coal loading facilities at Newport News, West Virginia and Charleston, South Carolina. The assets that Shell is acquiring had revenues of $400m on sales of 10m tons last year.

Shell said that its share of Massey's business included 355m tons of proven high quality low sulfur steam coal reserves which would boost its total coal reserves to 1.9bn tons. Fluor's share of the reserves will be 700m tons of primarily metallurgical coal.

Mr David Tappan, Fluor's chief executive, described the deal as "an important element" in the company's restructuring programme.

Fluor's shares were unchanged at $17⅞ in early trading yesterday.

● Amax, the US mining company, has had its senior debt ratings raised to BB from BB minus by Standard & Poor's. The agency says that by using the proceeds of recently completed asset sales and a $400m common stock issue to reduce debt, Amax has made significant progress in improving its balance sheet.

INTL. COMPANIES AND FINANCE

SWISS WATCHMAKER ADVANCES BY 16.7%

SMH set to pay first dividend

BY WILLIAM DULLFORCE IN GENEVA

SMH, Switzerland's largest watchmaking group, yesterday posted a 16.7 per cent climb in 1986 net consolidated earnings to SFr 70m ($47m). The group is to pay shareholders their first dividend since it was formed by a merger in 1983 at a time of crisis for Swiss watchmaking.

Mr Nicolas Hayek, chairman, confirmed the promise of a 5 per cent payout he made last October. The board proposes to pay SFr 5 per registered share and participation certificate of nominal SFr 100 and SFr 1 per nominal SFr 20 registered share.

The parent company reported a net profit of SFr 38m, more than double the 1985 result and consolidated cash flow grew by 14 per cent to SFr 138m.

In 1983 the group reported a consolidated net loss of SFr 173m and a negative cash flow of SFr 94m.

Consolidated sales for 1986 are booked at SFr 1.82bn, giving a 1.3 per cent increase, this was achieved, Mr Hayek said, despite the depreciation of the dollar, the "aggressive behaviour" of Japanese watchmakers, who cut prices sharply, and a collapse of sales to the Middle East.

In fact SMH applied annual average exchange rates to calculate its 1986 turnover in Swiss francs but had not adjusted the 1985 figure, when year-end rates were used.

Sales to North America, however, at SFr 481m, grew by more than 9 per cent, testifying to the continuing success of the Swatch plastic watch.

Globally SMH sold more than 12m Swatches last year.

SMH's performance in the first four months of the current year continues to be promising. Cost reductions and the launching of new products had brought about a "distinct improvement" in earnings, Mr Hayek said.

Results for 1987 should be as good as those for the previous year, provided no sudden deterioration occurred in external factors during the crucial last months of the year, he added.

In the longer term, Mr Hayek projected annual sales growth of 5 to 10 per cent in watches and of 10 to 20 per cent in the group's microelectronic products.

Unit sales by the watch division increased by 3.2 per cent last year but at SFr 1.56bn their value was almost unchanged. The technology division boosted sales by 11.8 per cent to SFr 294m.

A first issue of participation certificates and higher earings last year took shareholders' equity to 40.8 per cent of the consolidated balance sheet total from 32.1 per cent at the end of 1985.

In the parent company the equity accounts for 53.4 per cent of the balance sheet.

Of the group's watch brands Omega returned to profit last year after its model range had been slimmed to four main lines and new products were introduced.

The "rockwatch" helped produce a record year for Tissot but profits slipped at Rado, which was hit by the decline in the Middle East

Perrier acquisition to double US sales

By David Housego in Paris

PERRIER, the French mineral water and foods group, has doubled its mineral-water activities in the US with the purchase of BCI Arrowhead, the mineral-water division of Beatrice Food.

The acquisition is in line with Perrier's strategy of strengthening its market leadership in the US where it recently began to export flavoured Perrier water. With the new acquisition, Perrier's US sales will double to about $460m.

The price of the deal has not been disclosed, but Beatrice has been trying to unload its mineral water division for about six months. Perrier said yesterday that the purchase would be financed largely out of borrowings.

Perrier has been enlarging its US interests in the belief that mineral-water consumption is still low in the US but is on the increase. Mineral water sales throughout the US are rising about 15-20 per cent a year.

Mövenpick Holding to raise SFr 33.8m in cash call

BY JOHN WICKS IN ZURICH

MÖVENPICK HOLDING, the Swiss parent company of the Mövenpick restaurant and hotel group, is to raise SFr 33.8m ($22.8m) by a one-for-ten rights issue.

The transaction foresees the offer to existing shareholders of 3,770 new bearer shares of SFr 500 nominal value at SFr 4,000 each, 9,150 registered shares of SFr 100 nominal value at SFr 800 and 14,500 participation certificates of SFr 50 nominal value at a unit price of SFr 400.

The board will also propose the issue to the employees' equity fund of 930 bearer and 2,350 registered shares at the same conditions and ask the July 2 annual meeting for approval to issue 200,000 further participation certificates at its discretion later.

In the business year ended March 31, 1987, the holding company's net profits rose 17 per cent to SFr 8.6m, from which it intends to pay unchanged dividends of SFr 90 per bearer share, SFr 18 per registered share and SFr 9 per participation certificate on an increased overall capital.

In the calendar year 1986, total turnover ' the group increased by 6.8 per cent to SFr 704.8m, including SFr 56.1m from managed properties.

Of this, some 62.9 per cent was accounted for by restaurants and fast-food outlets, 24.6 per cent by hotels and 12.5 per cent by production and trading activities.

The group, which operates primarily in Switzerland and Germany, reports a further increase in turnover and profits during the first four months of 1987. Last year, group cashflow had risen from SFr 42.8m to SFr 48.8m and profits from SFr 10.7m to SFr 13m.

Ciba-Geigy agrees to buy Spectra-Physics for $224m

BY LOUISE KEHOE IN SAN FRANCISCO

CIBA-GEIGY, the Swiss pharmaceuticals and chemicals company, has agreed in principle to buy Spectra-Physics, a California manufacturer of laser systems, for 36.50 per share in cash, for a total value of about $224m.

The agreement is subject to the completion of current negotiations, said to cover several objections raised by Spectra-Physics to an earlier Ciba-Geigy bid of $32 per share.

Outstanding issues include a lawsuit filed two weeks ago by Spectra-Physics accusing Ciba-Geigy of "violating the spirit of the business relationship between the two companies."

The merger is also subject to the completion of an agreement under which all Spectra-Physics shares not tendered would be converted into cash at $36.50 per share. The agreement is expected to be conditional on at least 51 per cent of the shares being tendered.

Ciba-Geigy acquired an 18.8 per cent share in Spectra-Physics in 1985, and invested a further $5m in a joint research and development programme. At the time, Ciba-Geigy agreed not to acquire more than 20 per cent of the company before 1992.

The current takeover bid was, however, prompted by the purchase of a 13 per cent holding in Spectra-Physics by Reliance Financial, a company controlled by Mr Saul Steinberg, which, according to Ciba-Geigy, "undermined the development of the relationship between our companies that was the most important for our investment."

Ciba-Geigy said the acquisition of Spectra-Physics was part of a broader diversification plan which has included the acquisition of Mettler and Gretag in Europe, to take the company into the medical diagnostic instrumentation field.

Spectra-Physics makes electronic instruments with medical applications, in addition to laser systems used in supermarket check-outs and the construction industry.

Hertie aims to break-even

By Our Financial Staff

HERTIE, the West German department store group, hopes to break even this year after running up a net loss of DM 42.3m ($24.4m) in 1986, less than half its DM 92m 1985 shortfall, according to Mr Juergen Krueger, the management board chairman.

Mr Krueger told the company's annual news conference that Hertie had closed a large number of loss-making stores and should show no loss at the end of this year. For the first five months of 1987, overall turnover rose 1.7 per cent to DM 2.08bn, he said.

Leadership in Syndicated Credits

ALCAN

Aluminum Company of Canada, Limited

US$120,000,000
Note Issuance Facility

Arranged by
Swiss Bank Corporation International Limited

Lead Managers

Bank of Montreal — Barclays Bank PLC
Chase Investment Bank — Chemical Bank International Group
Commerzbank Aktiengesellschaft — Dai-Ichi Kangyo International Limited
IBJ International Limited — National Westminster Bank Group
Orion Royal Bank Limited — Swiss Bank Corporation International Limited
Toronto Dominion International Limited — Westpac Banking Corporation

Issuing and Paying Agent: Orion Royal Bank Limited
Swingline Agent: The Royal Bank of Canada

Agent
Swiss Bank Corporation International Limited

Swiss Bank Corporation International

Associates Corporation of North America

US$250,000,000
Revolving Credit Facility

Arranged by
Swiss Bank Corporation International Limited

Lead Managers

Amsterdam-Rotterdam Bank N.V. — BankAmerica Capital Markets Group
Banque Nationale de Paris — Barclays Bank PLC
The Bank of Tokyo Trust Company — Canadian Imperial Bank of Commerce
Commerzbank Aktiengesellschaft — Crédit Lyonnais
Credit Suisse — Daiwa Bank Trust Company
Dresdner Bank — The Long-Term Credit Bank of Japan, Limited
National Westminster Bank Group — Orion Royal Bank Limited
Swiss Bank Corporation — Westdeutsche Landesbank
Westpac Banking Corporation

Managers

Algemene Bank Nederland N.V. — Kredietbank International Group
The Industrial Bank of Japan, Limited — Midland Bank PLC
The Sumitomo Bank, Limited

Agent Bank & Swingline Agent
Swiss Bank Corporation

February 1987

Swiss Bank Corporation International

HFC

Household Finance Corporation

US$360,000,000
Revolving Credit Facility

Arranged by
Swiss Bank Corporation International Limited

Managers

Amsterdam-Rotterdam Bank N.V. — Australia & New Zealand Banking Group Limited
The Bank of Tokyo, Limited — Banque Nationale de Paris
Canadian Imperial Bank of Commerce — Commerzbank Aktiengesellschaft
Crédit Lyonnais — Deutsche Bank AG
The Industrial Bank of Japan, Limited — Midland Bank plc
National Westminster Bank Group — Orion Royal Bank Limited
The Saitama Bank, Limited — The Sumitomo Bank, Limited
Swiss Bank Corporation — The Taiyo Kobe Bank, Ltd.
Westdeutsche Landesbank — Westpac Banking Corporation

Agent Bank: Swiss Bank Corporation International Limited
Swingline Agent: Swiss Bank Corporation

March, 1987

Swiss Bank Corporation International

INTERCO INCORPORATED

US$50,000,000
Revolving Credit Facility

Arranged by
Swiss Bank Corporation International Limited

Managers

Banque Nationale de Paris — Barclays Bank PLC
Commerzbank Aktiengesellschaft — The Dai-Ichi Kangyo Bank, Limited
National Westminster Bank Group — Swiss Bank Corporation
The Toronto-Dominion Bank — Westpac Banking Corporation

Agent Bank: Swiss Bank Corporation International Limited
Swingline Agent: Swiss Bank Corporation

Swiss Bank Corporation International

Lincoln National Corporation

US$300,000,000
Revolving Credit Facility

Arranged by
Swiss Bank Corporation International Limited

Lead Managers

Credit Suisse — National Westminster Bank Group
Swiss Bank Corporation

Managers

Algemene Bank Nederland N.V. — Australia & New Zealand Banking Group Limited
Bank of Montreal — Banque Nationale de Paris
Barclays Bank PLC — Canadian Imperial Bank of Commerce
Commerzbank Aktiengesellschaft — The Dai-Ichi Kangyo Bank, Limited
Deutsche Bank AG — Orion Royal Bank Limited
The Toronto-Dominion Bank — Westpac Banking Corporation

Agent Bank
Swiss Bank Corporation International Limited

Swiss Bank Corporation International

Pioneer

PIONEER CONCRETE SERVICES LIMITED
and Subsidiaries

US$250,000,000
Multiple Option Financing Facility

Arranged by
Swiss Bank Corporation International Limited

Lead Managers

Algemene Bank Nederland N.V. — The Bank of Montreal Group
Barclays Bank PLC — Commerzbank (South East Asia) Limited
The HongkongBank Group — National Australia Bank Limited
The National Westminster Bank Group — Sanwa International Finance Limited
Société Générale — Swiss Bank Corporation

Managers

The Saitama Bank, Ltd. — Westdeutsche Landesbank Girozentrale
Westpac Banking Corporation

Agent Bank
Swiss Bank Corporation International Limited

Issuing & Paying Agent
Morgan Guaranty Trust Company of New York, London Office

Swiss Bank Corporation International

The Prudential Insurance Company of America
and
Prudential Funding Corporation

US$400,000,000
Revolving Credit Facility

Arranged by
Swiss Bank Corporation International Limited

Co-Advisors to the Borrower

Swiss Bank Corporation International Limited — S.G. Warburg & Co. Ltd.

Lead Managers

Canadian Imperial Bank of Commerce — Swiss Bank Corporation
Union Bank of Switzerland — S.G. Warburg & Co. Ltd.

Managers

Banque Nationale de Paris — Barclays Bank PLC
Commerzbank Aktiengesellschaft — Credit Suisse
The Dai-Ichi Kangyo Bank, Limited — Deutsche Bank AG
The Industrial Bank of Japan, Limited — The Long Term Credit Bank of Japan, Limited
The Mitsui Trust and Banking Company, Limited — National Westminster Bank PLC
Standard Chartered Bank — Westpac Banking Corporation

Agent Bank and Agent For Uncommitted Advances: S.G. Warburg & Co. Ltd.
Swingline Agent: Swiss Bank Corporation

Swiss Bank Corporation International

Time Inc.

US$250,000,000
Multi-Option Facility

Arranged by
Swiss Bank Corporation International Limited

Lead Managers

Deutsche Bank AG — Orion Royal Bank Limited
Swiss Bank Corporation — Union Bank of Switzerland

Managers

Bank of Tokyo Trust Co. — Banque Nationale de Paris
Barclays Bank PLC — Canadian Imperial Bank of Commerce
Crédit Lyonnais — Credit Suisse
The Mitsubishi Bank, Limited — National Westminster Bank PLC
Société Générale — The Sumitomo Bank, Limited
Toronto Dominion Bank

Nomura International Limited — PaineWebber International
S. G. Warburg & Co. Ltd.

Facility and Swingline Agent: Swiss Bank Corporation
Orion Royal Bank Limited

Swiss Bank Corporation International

Union Electric

US$150,000,000
Term Loan Facility

Arranged by
Swiss Bank Corporation International Limited

Lead Managers

Banque Nationale de Paris — Credit Suisse
Crédit Lyonnais — The Mitsubishi Bank, Ltd
National Westminster Bank Group — Société Générale
The Sumitomo Trust & Banking Company, Limited — Swiss Bank Corporation

Managers

Istituto Bancario San Paolo di Torino — The Nippon Credit Bank, Ltd
The Saitama Bank — The Sumitomo Bank, Limited

Agent Bank
Swiss Bank Corporation International Limited

Swiss Bank Corporation International

Swiss Bank Corporation International

David Blackwell on an Australian prospector's progress to producer

Dominion paves a new path of gold

DOMINION MINING of Australia has rocketed from the status of gold exploring company to a significant producer in less than two years.

This achievement has been reflected in the share price, which has risen over the period from 50 cents to A$2.55, giving it a market capitalisation of A$211.3m.

Although the company has been in existence for many years, it started to take off in July 1985 when it acquired for US$1m all the leases previously owned by the Anaconda Mining Company in Australia, Indonesia and the so-called Pacific "rim of fire"—where it has great hopes for the future.

"The whole dynamic of the gold mining business in the next century will be changed by the rim of fire discoveries," says Mr Peter Joseph, Dominion's chairman.

Anaconda was owned by Arco, the US oil group, which like many of the oil majors at the time, wanted to move away from the minerals sector.

Along with the leases Dominion acquired Anaconda's exploration team and a unique data base of mining prospects, built up over 20 years at a cost of $30m.

Following the acquisition Dominion carried out further exploration in Australia, beginning open cast mines at Cosmo Howley in the Northern Territory and Gabanintha in Western Australia. The first gold bar from the Cosmo mine was poured in January this year, and the company expects to have the Gabanintha mine up and running in late August.


Mr Peter Joseph, chairman (left) and Mr Peter Walker, chief executive.

Mr Joseph expects the company to produce 55,000 ounces of gold in the current year and nearly 70,000 ounces in 1988/89. With production costs of only US$200 an ounce, he is forecasting net profits this year of between A$15m and A$20.8m rising to between A$20.2m and A$27.2m the following year.

But he is looking to the rim of fire—where the earth's plates carrying Asia, Australia and the Pacific Ocean meet—for the company's next mines.

"Our philosophy is to seek near-term production and cash-flow in continental Australia," he says. "This will allow the company to pursue the very large exploration prospects in the rim of fire."

The epithermal gold to be found around the rim of fire is formed close to the surface where volcanic springs have existed in the past. Interest in the area was sparked by the Lihir discovery in Papua New Guinea in 1983, where reserves of 25m ounces of gold worth US$10bn were found.

Companies such as BHP/Amoco, CRA, and Emperor Western are already mining around the rim of fire, and the activity of prospectors is intense.

Dominion is well placed to exploit he possibilities of the rim. It has prospecting rights covering 80 per cent of the Solomon Islands, and has leases in the Kalimantan region of Indonesia.

"Our feeling is that there is more gold at Kalimantan than anywhere else," says Mr Peter Walker, the chief executive and a geologist.

"Anaconda carried out diamond research there and found lots of gold—we picked up the traces and carried on.

"We are looking for large medium-grade deposits capable of producing 500,000 ounces of gold per annum."

The company's prospectors have been in Kalimantan for a year already, and it will be another year before they have much to say. "It takes time and patience — but the rewards are immense," says Mr Walker.

The company is proud of its youthful image, and believes that the mine and plant at Gabaintha rank with the most up-to-date in the world.

Although Mr Walker and Mr Joseph describe their reconnaissance of the rim of fire as "very successful," they are adopting a cautious approach to their emergent business.

"We are taking things one step at a time—and we have a long way to go."

US deals for James Hardie and Sarich

By Bruce Jacques in Sydney

TWO AUSTRALIAN companies have announced significant international deals, both of them in the US.

James Hardie Industries has spent A$100m (US$71.7m) to expand further its US building products operations through the acquisition of two gypsum wallboard makers —the Pacific South-West unit of California's Domtar Industries and an unnamed company operating in Washington state.

The purchases bring Hardie's US investments to about A$300m. In 1986, Hardie derived about 15 per cent of its sales and nearly 25 per cent of its net earnings from outside Australia.

In the other deal, Sarich Technologies Trust has signed a licensing agreement for its orbital engine with Brunswick, the Illinois-based power boat builder. The deal, said potentially to be worth hundreds of millions of dollars, will entitle Brunswick to use and sell the orbital combustion process in two-stroke engines for marine use worldwide.

Sarich directors said yesterday that Brunswick would sell under the name Mercury and other Brunswick trade names, once certain technical and financial agreements had been executed. "Orbital Engine Company, owned by Sarich and BHP, is currently in receipt of a signed agreement and a substantial payment is due immediately," they said.

The deal gives Sarich, shares in which rose to as much as A$24 each last year before sliding to a close in Sydney yesterday of A$3.20, a chance to realise some of the potential seen by earlier investors.

The Australian Government is currently spending A$500,000 on a study into a possible plant to build the Sarich engine in Western Australia and the company has non-exclusive agreements with Ford and General Motors.

Singapore plans to sell more airline shares

BY ROGER MATTHEWS IN SINGAPORE

THE SINGAPORE Government is to reduce its holding in Singapore Airlines (SIA), the island's flag carrier, by a further 5 percentage points through the sale of 30m shares at an offer price of S$13 each.

SIA is meanwhile to convene an extraordinary shareholders' meeting in August to seek approval for an increase in the ceiling on foreign ownership from 20 per cent to 25 per cent of the company.

The latest tranche of shares on offer would cut the stake of Temasek Holdings, the state investment holding company, to 58 per cent. If the sale proves successful, Temasek is prepared to sell an additional tranche, up to a limit of a further 30m shares, thereby cutting its holding to 53 per cent, a bare overall majority.

Net proceeds from the sale, which is not being underwritten, are put at S$386m (US$183m), or S$772m if the full 60m shares are disposed of.

The foreign ownership limit was reached in April last year, and by the end of last month some 8.3m shares held by overseas investors were awaiting registration.

The sale offer by Temasek is in line with the Government's programme of limited privatisation and follows an excellent performance by the airline

The share price closed unchanged in Singapore last night at S$13.20.

Israeli pharmaceuticals group boosts profits 75%

BY JUDITH MALTZ IN JERUSALEM

TEVA Pharmaceutical Industries, which supplies some 40 per cent of the Israeli drug market, has reported a 75 per cent jump in net profits for the year to March to US$14m.

Total revenues for the company, a subsidiary of the Koor conglomerate, grew by more than half to $140m. Of these, overseas sales accounted for $82m.

Until the early 1980s, most of Teva's products were either sold in Israel or exported to Africa. The company—shares of which are traded over-the-counter in New York—had by then decided to shift its focus to the US.

Last year's upturn in profitability has been attributed to this shift in marketing. The US now takes two-thirds of Teva's total exports, compared with only one-third two years ago. Sales to the US are expected to reach $80m by 1990.

Late last year, the US Food and Drug Administration approved a new anti-epilepsy drug developed by Teva and and called Epitol, sales of which are forecast to climb to $4m within the next few years.

Teva has been helped by a Washington decision to simplify the approval process for producing and marketing generic drugs.

JRA bids for Mercedes distributor

By Our Sydney Correspondent

JRA, the Australian company bought from Rover Group of the UK in a A$66m (US$47.4m) management buyout earlier this year, has launched a A$24.6m takeover bid for Austral Group, the country's Mercedes distributor.

JRA has reached agreement to buy the 14.9 per cent stake in Austral held by Evans Deakin Industries, a Queensland engineering group, and plans to offer A$1.20 a share for the rest.

The bid is conditional on 51 per cent acceptance and Touche Ross, JRA's independent advisers, estimates the value of Austral shares to be in the range of A$1.15 to A$1.20. No Austral shares traded in Sydney yesterday, but there was a buying quotation on the boards at the bid price.

Brierley in property link

PROPERTY development activities of New Zealand's Brierley Investments (BIL) will be channelled into a new joint venture involving Wellesley Resources, a listed developer, Reuter reports from Wellington.

The new company, Brierley Cromwell Property, will absorb the property development activities of both, while BIL will buy up to 30 per cent of Wellesley.

Mr Graeme Bringans, Wellesley chairman, said: "It brings us close to a portfolio of property worth probably NZ$ 1.5bn (US$888.5m)."

INTERNATIONAL CAPITAL MARKETS

Currency hopes lift Eurodollar issues

BY CLARE PEARSON

A GROWING belief that the dollar may have hit its lows boosted the Eurodollar bond market, but depressed the D-mark sector yesterday, as the currency stayed firm in the wake of last Friday's encouraging US trade and inflation figures.

Prices of five-year Eurodollar bonds rose by about ⅝ point while longer-dated issues achieved gains of up to one point, as D-mark Eurobonds eased by between ½ and one point on dwindling expectations of currency gains.

INTERNATIONAL BONDS

Professional short covering provided the main impetus to the improvement in the Eurodollar market. But dealers reported moderate retail buying, particularly of the shorter-dated issues, whose yield spreads relative to US Treasury bonds have narrowed to a lesser extent than on the longer-dated issues.

Meanwhile, the Eurosterling market eased along with gilts as buyers of sterling still failed to emerge, dimming hopes of an imminent post-election cut in bank base lending rates. This left last Friday's three new five-year issues, for Amro, Banca Nazionale del Lavoro, and Swedish Export Credit languishing at around less 3, well outside their fees.

Activity was limited on the new issues front, with a trickle of moderately sized deals emerging.

Deutsche Bank Capital Markets led an A$50m three-year non-swapped issue for GMAC Australia Finance with a 14 per cent coupon and 101½ issue price.

In the equity warrants area, Yamaichi International (Europe) led two five-year par-priced issues. These were a $50m bond for Toyama Chemical, with an indicated 1⅞ per cent coupon, and a $40m issue for Yamamura Glass, with an indicated 1⅞ per cent coupon. This traded at around 99 bid, while Toyama's deal was quoted at 101 bid.

Euroyen prices eased by about ¼ point on concern at the dollar's strength against the yen, while a rare Euroyen issue for a US savings and loan institution emerged under the joint leadership of Banque Paribas Capital Markets and IBJ International.

This was a Y7bn collateralised five-year bond for Lincoln Savings and Loan Association, priced with a 4⅞ per cent coupon and 101⅞ issue price.

The stronger dollar and the prospect that the US economy may be strengthening upset the German bond markets, which experienced unusually sharp falls. Domestic bond prices were as much as one point lower, while prices in the Euro-D-Mark bond sector fell by up to ¾ point.

Thus the timing was less than perfect for a DM150m issue for Malaysia. The seven-year bond carried a 6¼ per cent coupon and a price of par and was led by Deutsche Bank.

In quiet trading in the Swiss market, prices were little changed. There was one new issue, a SFr100m public offering for Pargesa, the financial services company, carrying a maturity of eight years, a 4⅞ per cent coupon for Pirelli and Co. The bond, which when final terms were set had its size and maturity reduced and its coupon raised from that originally envisaged, traded at about 98 bid.

In Luxembourg francs, Nobel Industries, the Swedish explosives group, brought a LFr300m issue carrying a 7¼ per cent coupon, a five-year maturity and an issue price of 100½. Banque Paribas (Luxembourg) is leading the issue.

OECD calls for greater provisioning consistency

By David Lascelles, Banking Editor

GREATER CONSISTENCY in the provisioning practices of banks from different countries would help to strengthen the international financial system and lead to fairer competition, according to a report by the Organisation for Economic Co-operation and Development.

The report on prudential supervision in OECD member countries said that "the disparity of provisioning techniques as well as of actual levels of provision continues to be considerable across countries and banks."

The report says that banking supervisors are keeping the situation under constant review, and it expects that this should lead over time to greater compatibility of approaches and practices.

But it predicts that progress will be slow until progress is also made on collateral issues such as accounting and taxation which have a big influence on banks' ability or willingness to make provisions.

The report also notes that some countries, like the US, have mandatory provision requirements for countries in financial difficulties.

The issue of greater consistency on provisions has been raised by Citicorp's decision last month to set aside $3bn against possible losses on its Latin American loan portfolio. This has prompted other banks, mostly in the US, to take similar action. But banks in other countries are still considering their response.

"Prudential supervision in banking." 298 pages. OECD, 2 Rue Andre Pascal, 75775 Paris Cedex 16.

David Lascelles explains the dilemma over providing cover for Third World loans

UK clearers hesitate to 'do a Citicorp'

THE DEEP silence emanating from the UK clearing banks on the question of provisions for Third World debt is the sound of bankers wondering hard what they should do. "We're thinking about it," was the typical response from a senior clearing banker last week.

The move by the US banks, led by Citicorp, to make large provisions against their loans to debt-ridden developing countries has turned out to be acutely embarrassing for British banks. They feel under pressure to follow suit. Yet they have always maintained that provisions must be a matter for each bank to decide. Also, good form requires that all the clearers do roughly the same thing, so a measure of co-ordination may be needed with the help of the Bank of England.

The Bank's only public utterance on the subject was its comment on the day after Citicorp took its $3bn "hit"—that it considered provisioning to be a "continuing process," rather implying that it did not want UK clearers to follow the American lead.

Generally, the UK clearers are believed to be better provided than the US banks because they have been building up their reserves over time, and they have a smaller exposure. They also accelerated their provisioning in the latter half of last year as the world debt situation deteriorated.

But only one of the Big Four has stated clearly what it intends to do in the wake of Citicorp. That was Midland Bank, which said it would continue to build up its provisions gradually. But this was not unexpected since Midland has the largest Latin American exposure of the clearers and, relatively, the smallest capital. Were Midland to match Citicorp, it would have to make a provision of over £600m, considerably more than this year's expected profits of £500m.

The other three banks, Lloyds, NatWest and Barclays, are carefully weighing up the pros and cons. The advantage of "doing a Citicorp" would be to bring a more realistic valuation to their Third World loans, and enable them to be sold in the secondary market.

If the move was well received in the stock market, it could raise the banks' share price, as happened in the US. So bankers have been sounding out likely reaction. Would it be taken badly if they took a hit, or would it be worse if they did not. Would any announcement have to be accompainied by an assurance that the dividend was safe

Bankers also say that they are receiving more encouraging signals from the Inland Revenue over the amount of provisions which would be allowable for tax. Tax experts believe that the case for more generous tax treatment has been strengthened by the Citicorp move and by the emergence of a secondary market for Third World loans where values can be ascertained.

Banks' main exposures to problem country debtors

	End 1986 Exposure adj for $1.63 rate plus new money packages £bn	Accumulated provisions as a % of exposure†	Additional provisions required £m†	1987 pre-tax profits estimates adj for one off provision increase £m
Barclays	2.6	10	390	593
Lloyds	2.9	8	493	315
Midland	3.8	8	646	−126
NatWest	2.7	12	351	829

†Estimated

Source: Smith New Court

A further attraction of doing a Citicorp, at least for the stronger banks, would be to gain a competitive advantage over those less well-placed. This motive may well have been on Citicorp's mind as well.

British banks now seem less well provided than most US and Continental banks, and their auditors (who also sign off on accounts of US banks) will be under pressure to achieve more uniformity.

However, there are also drawbacks. The main one, bankers say, is that writing down the loans to a particular country to, say, 15 per cent of their face value, would oblige a bank immediately to write down to a similar level any new loans made to that country as part of a refinancing package. Apart from being costly, it would discourage banks from participating in new loan agreements.

Another is that a big provision would weaken a bank's capital base if it was earmarked for particular loans. This is not the case in the US where the entire loan loss reserve can be counted as capital.

Of the clearers, NatWest seems most inclined to make a large provision. It can afford to: it has both the smallest Latin American exposure and the largest capital. Lloyds and Barclays seem to be more split in their attitude.

However, the Bank of England might be inclined to discourage banks from taking a big hit to avoid putting Midland on the spot. Some bankers believe that the Bank is proposing that the clearers build up their Third World provisions to the equivalent of 25 per cent of their loans over a two-year period.

The Bank will not comment on its position. Yet it would be uncharacteristic of the Bank to lay down hard and fast rules on a matter as sensitive as bad debt provisions. The Bank is more likely to keep pressing the banks to make provisions, using the Citicorp case to reinforce the argument.

The situation would also be clearer if the new UK-US accord on bank capital were already in force (it will not be until the end of this year). Although it does not refer to provisions, officials say this is an area where closer policy co-ordination may be needed, particularly in cases where UK and US bank sare holders of the same assets.

Unless one of the clearers makes an earlier announcement, their response to Citicorp will not be known until they report their interim results in late July.

Sullivan Mines Swiss franc issue withdrawn

By Our Euromarkets Staff

A SFR 25M convertible issue for Sullivan Mines, the Canadian company, first announced on June 5, was withdrawn from the Swiss franc foreign bond market yesterday after shareholders had rejected the deal last Friday.

Mr Claude Genest, Sullivan's president and chief executive, said that shareholders' representatives on the board had objected to the issue both because of the cost of covering the exchange risk and because of the 34 per cent dilution of existing shareholdings if the bond had been fully converted.

Cambior, floated last year after it had become the recipient of many of the Crown corporation Soquem's mining assets, holds a 30 per cent stake in the company.

Banque Indosuez, the projected lead-manager of the SFr 25m eight-year bond for Sullivan, described its withdrawal as "extremely embarrassing."

The withdrawal comes in the wake of a crop of cancellations in the Swiss franc foreign bond market recently, most notably that by Primerica, the US financial services company, of a SFr 125m bond prior to its agreed bid for Smith Barney, the US banking and securities firm.

Oslo rejects plan to tax share trading

By Karen Fossli in Oslo

NORWAY'S Storting (parliament) spurned the minority Labour government's proposal to implement a 2 per cent tax on all share trading and has instead increased the capital gains tax from 35 per cent to 40 per cent.

The government proposed the law in its revised national budget in May as a means to raise some NKr 400m for state coffers. The proposal came under heavy fire from the market which believed that it would have frightened foreign investors from Norway to major trading centres like London.

When the proposal for the share trade tax was announced it caused the Oslo bourse to register its steepest ever one-day fall. The bourse index sank to 299.98, pluging 13.17 points or 4.2 per cent.

The government has sought greater control over the Oslo stock market because of concern about insider trading and volatility caused by short term trading. The Finance Ministry, which oversees the Oslo bourse, says that new regulation is largely in line with similar regulations enforced in Sweden and Denmark.

Japan eases time deposit regulations

THE Bank of Japan will relax requirements on large-denomination time deposits—effective on October 5—as the fifth in a series of financial liberalisation measures being taken by Japan, Bank officials said this weekend, Kyodo reports from Tokyo.

The minimum period of deposit for large-denomination time deposits will be shortened to one month from the present three-month requirement.

At the same time, the minimum deposit for money market certificates (MMCs) will be lowered to Y10m from the current, Y20m regulation, the officials said.

Vacant TSE seat worries foreign brokers

BY YOKO SHIBATA IN TOKYO

A VACANT seat on the Tokyo Stock Exchange (TSE), created by the planned merger of two medium-sized brokerage houses affiliated with Nomura, has stirred considerable concern among foreign brokerage houses.

Toichi Securities and Taiyo Securities are to merge on October 1 into a joint company which will be 77 per cent owned by the Nomura group.

The merged brokers will vacate one of their two present TSE seats in October before the exchange expands its membership next May. No decision has been taken on whether the vacant seat will be sold to a foreign broker – a step that would defuse some of the present tension over the issue – but a Nomura spokesman said the company would leave the decision to the TSE.

The US and British Governments have been pressing the TSE to allocate more seats to foreign brokers in order to make the Japanese financial markets more accessible to foreign companies.

Last time a TSE seat became vacant, as a result of the merger of three Yamaichi Securities group companies in December 1984, Merrill Lynch lost out in a bidding battle to Utsunomiya Securities. Merrill's bid was said to have been "far below" the Y1.639 bn ($11.7m) paid by Utsunomiya.

However, Yamaichi's decision backfired when the US Government complained that it constituted an obvious attempt to exclude foreign stockbrokers from an important segment of the Japanese capital markets. The ensuing diplomatic row resulted eventually in the entry of 10 new members to the TSE, including six foreign brokerage houses.

When they did so, in February last year, the cost of aquiring membership was estimated between Y1.0bn and Y1.1bn on average, according to TSE officials.

Rules tightened for Portugal's listed companies

COMPANIES listed on Portuguese stock markets will from now on have to publish half-yearly reports providing full and accurate information about their consolidated balance sheets, investments and financial operations, writes Diana Smith in Lisbon.

Complying with European Community directives and tightening up rules on the Lisbon and Oporto markets, the Portuguese Government has published a decree that for the first time makes full and accurate financial reports compulsory for listed companies.

Companies that fail to comply with the decree, which gives them three months after the close of half-yearly accounts to publish their reports, will be liable to fines

Stockbrokers, meanwhile, are pressing for more sophisticated share price systems on the Portuguese markets, where only one price change a day is announced. The brokers want continuously updated price changes, which would involve several alterations in the present software.

The Portuguese market continues to grow rapidly.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on June 15

US DOLLAR STRAIGHTS — Issued, Bid, Offer, Change on day, week, Yield

YEN STRAIGHTS

OTHER STRAIGHTS

DEUTSCHE MARK STRAIGHTS

SWISS FRANC STRAIGHTS

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	week	Yield
EIB 4⅝ 97	200	†98¾	99	−0¼	0	4.77
Glendale F. S. & L. 5½ 95	100	†101¾	102	−0⅝	−0⅛	5.21
Humana 5⅛ 98	120	†98¾	99	+0⅛	−0¼	5.26
Industrial Credit 5⅝ 96	75	†99½	100	+0¼	+0¼	5.78
Japan Dev. Bk. 5⅛ 97	100	†102	102½	−0⅛	0	4.84
Oberos. Kftwk. 5⅛ 95	100	†103	103⅜	−0⅛	0	4.65
Olivetti Intl. 5½ 95	100	†103½	104½	−0⅝	−0¼	4.89
Pepsico 5¾ 95	150	†105½	106	+0¼	+1	4.35
Prov. of Manitoba 4¾ 94	200	†102¼	103	−0⅛	+0¼	4.33
Ralston Purina 5⅜ 94	125	†103	103¼	−0¼	−0¼	4.86
Settsu Euro. 0 02	100	†47⅝	47⅞	0	+1	5.55
Tohoku Elec. Pwr. 4⅞ 96	150	†99¾	100	−0¼	+0⅛	4.89
USX Corpn. 5¾ 98	100	†98	98½	+0⅛	0	5.97
World Bank 5¼ 94	150	†105½	105¾	0	+0⅛	4.83

Average price change on day −0⅛ on week +0⅛

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alberta 3 93	0.0312	99.94	100.03	13/05	6.14
Alliance & Leic. Bldg. 94 £	0.08	99.23	99.28	20/04	9.89
Belgium, Kingdom of 91	0	100.06	100.16	19/02	6.69
Britannia 5 93 £	0⅛	99.57	99.62	8/04	10.06
Chase Manhattan Corpn. 91	0⅛	99.95	99.05	29/08	6.56
Citicorp 98	0¼	97.42	97.62	27/02	6.63
Credit Lyonnais 5 00	0⅛	†98.62	98.72	23/07	6.19
EEC 3 92 DM	0	100.34	100.41	20/02	4.19
EEC 5¼ 93 Ecu	0.0312	†99.85	99.95	30/01	7.18
Halifax Bldg. Soc. £ 94	0.1	99.31	99.37	6/05	8.97
Midland Bank 01 £	0.1	96.09	96.32	9/05	8.91
Milk Mrktg. Board 5 93 £	0⅛	99.28	99.33	30/03	10.00
New Zealand 5 97 £	0.07	98.81	98.91	16/05	11.00
New Zealand 5 01	0	99.00	99.10	4/08	6.31
Shearson Lehman Hldgs. 91	0⅛	99.00	99.17	6/05	7⅛
United Kingdom 5 92	0	99.46	99.53	7/04	6.31
Woodside Fin. 5⅛ 97	0	99.42	99.52	28/04	7.06
Woolwich 5 95 £	0⅛	99.38	99.37	19/05	10.62

Average price change on day −0.15 on week −0.11

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Asics 5 92 DM	12/83	472	149⅝	148⅝	+0⅝	4.05
Minolta Camera 2¼ 94 DM	2/86	2185	96¼	97¼	+2	56.18
Ashikaga Bank 2⅛ 02	4/87	996	125¼	126¼	−3	−3.79
Chiba Bank 2⅛ 02	1/87	890	237¼	239¼	+3⅛	10.05
Fuji Bank 2⅛ 00	10/85	1623	†399	400	−10	−3.40
Fuji Heavy Industries 3 00	8/85	676	128¼	129½	−1½	−1.01
Fujitsu 3 99	5/84	1109	161⅞	163⅛	+0⅝	1.49
Gunma Bank 2⅛ 02	4/87	888	149¼	150¼	−0⅛	−0.65
Mitsubishi Bank 2⅞ 00	8/85	1715	†383	384	−15	−4.87
Mitsubishi Trust 2½ 01	5/86	1600	†385	386	−5⅛	−6.72
Mitsui Bank 2⅞ 01	4/86	—	—	—	—	—
Mitsui Trust 2⅞ 01	10/86	1990	184¼	186¼	−3¼	2.83
Murata 3½ 00	7/84	1998	210	212	+6⅞	4.78
Nippon Elec. 2⅞ 00	1/85	1295	264⅞	265⅞	+4⅞	164.09
Nippon Oil Co. 3 00	5/85	923	†246	247	−6	−6.06
OKI Elec. Ind. 3½ 99	10/84	805	158½	160	+4⅛	2.98
Omron Tateisi 2⅞ 02	4/87	1350	116¼	117¼	+0⅛	−1.11
Sanwa Bank 2¼ 00	10/85	1442	†394	395	−0½	−1.23
Sumitomo Bank 2¼ 00	8/85	2142	†378	379	−22	−0.75
Toshiba Ceramics 3 00	4/85	1734	146⅞	147⅞	−0⅛	7.97
Nippon Oil Co. 2⅛ 92 SFr	3/84	1061	†148	150	−0⅛	−2.96
Yokohama Bank of 2⅛ 01	10/86	1845	205⅞	207⅞	−11⅛	−2.85

* No information available—previous day's price.

† Only one market maker supplied a price.

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month, § above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The prices over the past week were supplied by: Kredietbank NV; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg, Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; J. Henry Schroder Wagg and Co., Bank of Tokyo International; Chemical Bank International; Chase Manhattan; Citicorp International Bank; Daiwa Europe NV, Credit Commercial de France (Securities); EBC Amro Bank; LTCB International; Robert Fleming and Co.; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch Pierce Fenner and Smith; Morgan Stanley International; Nikko Securities Company (Europe); Nomura International; Orion Royal Bank; Samuel Montagu and Co.; Societe Generale Strauss Turnbull; Sumitomo Finance International; Swiss Bank Corporation International, S. G. Warburg and Co.; Wood Gundy.

FT LAW REPORTS

Charterers' option survives repudiation

FERCOMETAL SARL v MEDITERRANEAN SHIPPING COMPANY SA

Court of Appeal (Sir Nicolas Browne-Wilkinson, Vice-Chancellor, Lord Justice Parker and Lord Justice Ralph Gibson): May 22 1987.

A person who has an option to cancel a contract in certain circumstances but who repudiates it in anticipatory breach, is subsequently entitled to cancel the contract if his repudiation is not accepted so that the contract including the option survives, and if due to no fault of his the specified circumstances giving rise to exercise of the option arise.

The Court of Appeal so held when dismissing an appeal by *Mediterranean Shipping Co SA*, owners of the Simona, from a decision by Mr Justice Leggatt that the charterers, Fercometal SARL, were not liable to them for dead freight.

LORD JUSTICE PARKER said that on June 11 1982 a charterparty was made in the Gencon form for the carriage of a part-cargo of 6,000 metric tonnes of steel from Durban to Bilbao, in Simona.

The vessel was expected to be ready to load on July 3 1982. The charter provided that should *she not be ready to load on or before July 3-9*, charterers had the option of cancelling.

Owners had an option to complete with other cargo, but that was not to interfere with load*ing under the charter.*

On June 29 owners advised shippers that the vessel was nominated under the South African Transport Services permit system to load from July *6 to 9.*

On July 2 the owners requested an extension of the cancelling date to cover loading dates from July 13 to 16. The charterers said the later *loading dates were* unacceptable and that they were cancelling the charter.

It was common ground that, that constituted a repudiation of the charter by anticipatory breach. The repudiation was not accepted by the owners. On July 5 they telexed charterers that contrary to previous communications the vessel would start loading July 8.

At the same time the charterers received information that the Transport Services permit to load would be granted for July 13-16.

By July 5 about 4,700 tonnes of the 6,000 tonnes of steel had been in Durban since July 2, and the charterers had provisionally fixed the Leo Tornado to carry it to Bilbao. *They now* confirmed the fixture.

Later on the same day owners notified charterers that Simona would be ready to load on July 7 or 8. The vessel arrived in Durban on July 8 and gave notice of readiness. It was not accepted by the charterers who endorsed it "vessel off charter 2/7." They began loading into Leo Tornado on the same day.

On July 9 the owners telexed the charterers that the vessel was now open for the cargo and would charterers confirm their intentions. Charterers did not reply. On July 12 they gave a further cancellation notice. They tendered no cargo thereafter and in due course the vessel sailed from Durban.

Simona was not ready to load *until after July 12.*

The owners contended that charterers were not entitled to cancel so that the cancellation and failure to tender cargo were repudiations of the char*terparty which were accepted* by the departure of the vessel, and they were therefore entitled to damages by way of dead freight.

The issue was whether the right to cancel which *prima facie* accrued to the charterers because the vessel was not ready to load by the cancelling date, had been lost because of prior events[namely the repudiation of July 2 and the subsequent fixing and loading of the Leo Tornado].

The owners' claim to dead freight succeeded in arbitration, *and charterers were ordered to* pay $116,870. Mr Justice Leggatt allowed the charterers' appeal. The owners now appealed from his judgment.

In *Frost v Knight (1872) 7 Ex 111* Chief Justice Cockburn said that where a party to a contract announced his intention not to perform it prior to time of performance, "The promisee . . . may treat the notice of intention as inoperative . . ., but in that case he keeps the contract alive for the benefit of the other party as well as his own; he . . . enables the other party . . . *to take* advantage of any supervening circumstances which would justify him in declining to complete it."

That was adopted in Johnstone v Milling (1886) 16 QBD 460, 470.

On the face of it, what happened in the present case was that a "supervening circumstance," namely the fact that the vessel was not ready to load by July 9, had occurred which justified the charterers, by exercising their option, in declin*ing to complete.*

No authority was cited to support the proposition that charterers would no longer be entitled to exercise the option. It would be contrary to all authority so to hold. The contract would not then be kept alive for the benefit of charterers as well as owners.

The law as stated in *Johnstone v Milling* had been reasserted in many cases since. In *Heymand v Darwin [1942] AC 356*, 361 Lord Simon LC said that where a contractor insisted on holding a repudiating co-contractor to the bargain, the co-contractor "has the opportunity of withdrawing from his false position, and even if he does not, may escape ultimate liability because of some supervening event not due to his own fault which excuses or puts an end to further performance."

That passage provided the key to the solution in the present case. If an unaccepted *repudiation by anticipatory* breach had no legal effect but thereafter an event occurred which *prima facie* enabled the unrepentant repudiating party to escape liability because it *excused further performance*, it would do so *unless it was due to his own fault.*

In Howard v Pickford [1951] 1 KB 417, 421 Lord Justice Asquith said: "An unaccepted repudiation is a thing writ in water and of no value to anybody; it confers no legal rights . . ." In *Suisse Atlantique [1967] AC 361*, 398 Lord Reid *said:* "Where the contract has been affirmed by the innocent party . . . You must either affirm the whole contract or rescind the whole."

Having affirmed the contract *on July 5 after* charterers' repudiation, owners could not contend that the contract survived minus the option.

In the absence of clear *authority creating an exception* to the general rule the court could not hold that charterers had lost their option once owners had, by their telex of July 5, clearly elected to affirm the contract.

The question was whether subsequent events could have such effect.

The rejection of the notice of readiness could not do so for it was nothing but an untrue statement that the vessel was ready to load. The fact that it was endorsed made no *difference. Such endorsement* could have been no more than a further anticipatory breach.

The same applied to the fixing and loading of Leo Tornado.

Those could have been no more than anticipatory breaches, *for* the obligation to load the steel did not, on the terms of the charterparty, arise until valid notice of readiness had been given, and none ever was. On July 9 the owners reaffirmed the contract.

As a matter of general principle *therefore, the charterers had not lost their option* by events subsequent to the owners' *affirmation of July 5.*

Nothing was shown to warrant a departure from the general rule that where an innocent party elected not to accept a repudiation the repudiating party could rely on any subsequent event which excused him.

It was not a question *of determining what would have* happened or of readiness and willingness to perform. The factual situation giving rise to the option actually occurred and charterers were entitled to cancel. *The appeal was dismissed.*

The Vice-Chancellor and Lord Justice Ralph Gibson agreed.

For the owners: Michael Dean, QC, and A. Fenton (Lloyd & Co).

For the charterers: D. Donaldson, QC, and H. Page (Holman Fenwick & Willan).

By Rachel Davies
Barrister

APPOINTMENTS

Leyland Bus strengthens board

LEYLAND BUS GROUP, which earlier this year was the subject of a *management buy-out from* the Rover Group, has appointed two non-executive directors. **Mr Irwin Dalton**, executive vice chairman and chief executive-operations of the National Bus Company, and **Mr Malcolm Norgate**, until recently chairman and chief executive of Quinton Hazell, join the team of six executive directors led by **Mr Ian McKinnon**, chairman and chief executive, which completed the buy-out in January.

★

Mr Sam Wainwright has been appointed to the board of AMDAHL (UK) as a non-executive director and has been appointed a trustee of the Amdahl (UK) Pension Fund. Mr Wainwright is chairman of Mander (Holdings), a non-executive director of BICC and a member of the Monopolies and Mergers Commission.

★

Mr Charles Cotton, chief executive of the UK thermal division, has been appointed to the board of THERMAL *SCIENTIFIC. He is responsible* for a business which comprises five companies, Carbolite, Torvac, Wentgate, Thermal Processing and Sharetree. His new role will also include marketing and technical liaison with Thermal's US companies including the recently acquired Vacuum Industries Inc. **Mr A. B. Morgan** has retired from the board.

★

Mr David Suratgar, a director of *Morgan* Grenfell & Co, has been elected chairman of the WEST INDIA COMMITTEE in succession to **Mr Christopher Thornton**, a director of Rediffusion. **Mr Tom Chellew**, regional director of Cable & Wireless, has been elected deputy chairman.

Powell Duffryn engineering director

POWELL DUFFRYN has appointed **Mr Freddie Bircher** as an executive director from July 6. He will assume responsibility for the engineering interests of the group at home and overseas and will become chairman of a number of subsidiary companies including Hamworthy Engineering. He has spent most of his working life with the Alcan Group in Europe. Latterly he was managing director of subsidiaries in Belgium and France as well as a member of the Alcan European management committee.

★

BABCOCK CONSTRUCTION, a division of Babcock Energy, has appointed **Mr Andrew Innes** as director of construction. He was appointed commercial projects manager of the construction division in 1980.

★

Mr Robert and **Mr Graham Bourne** have been appointed joint chief executives of the LOCAL LONDON GROUP. **Mr Andrew Blurton** has been appointed managing director. Mr Robert and Mr Graham Bourne will continue to be wholly responsible for property acquisitions and development of the property portfolio while Mr Blurton will be responsible for *the management and operational* control of the group. Mr Blurton, a chartered accountant, joins from the corporate finance department of Greenwell Montagu.

★

Mr Andrew Smith and **Mr Bernard Taylor** have been appointed directors of BARING BROTHERS & CO. Mr Smith and Mr Taylor are both members of the Barings corporate finance department.

★

Mr Crawford Murray has been appointed director of financial services of TEAM AGENCIES. He was a senior manager with the Royal Insurance group. Team Agencies, formed in October last year, claims that its estate agency shareholders can offer independent "best advice" on all aspects of financial services. It provides training and marketing resources to its members. Barclays Bank—which recently bought a 3 per cent shareholding in Team Agencies—is making available £150m for mortgage finance. Other shareholders are Brown Shipley, Commercial Union, Legal & General, Norwich Union and Scottish Life.

Crawford Murray

★

Mr Nick Harris has been appointed a director of BRYANT PROPERTIES. He is the senior investment manager and responsible for the acquisition and disposal of property investment opportunities. **Mr Bob Jones** has been appointed a director of Bryant Homes Southern, respounsible for all the construction activities of that company.

★

COUNTY NATWEST has appointed a Japanese warrant and convertible trading team, recruited from Nikko Securities. The team, which was built up over the past 18 months, is led by **Mr Nicholas Brown**, who joins as an associate director, and who will be bringing six other traders and three settlements staff with him.

★

CHANCERY SECURITIES has appointed **Mr Brian Rubins** as a director. He is managing director of its property finance subsidiary, Chancery Securities Financial Services.

★

FIELD AVIATION, part of Hunting Associated Industries, has appointed to its main board **Mr R. C. Harrison**, managing director of Field Aircraft Services (Croydon), and of Field Aviation Accessories; **Mr R. A. Slack**, managing director of Field Aviation (Heathrow), and of Daniel Systems Europe, and director of Field Aircraft Services (Heathrow; and **Mr P. J. Stewart**, managing director of *Field Aircraft Services (East* Midlands), and a director of Air Bridge Carirers.

★

CARLTON MAGAZINES, part of Reed International, has appointed **Mr Martin A. Matthews** as managing director. of administration.

★

PROTOCOL INTERNATIONAL has appointed **Mr Kenneth Wilson** as sales director. **Mr Richard Pugh** and **Mr James Reynolds** have been appointed non-executive directors.

★

CROWN WALLCOVERINGS has appointed **Mr Geoff Pearce** as director of design. H was design director at the House of Mayfair.

★

REED BUSINESS PUBLISHING has announced that **Mr John Hallam**, managing director of its industries division, has been appointed to the board.

★

Mr Peter Bryant, managing director of TYZACK AND PARTNERS (BRISTOL), is, in addition, being appointed a partner of the London office.

★

Mr David Parker has been appointed financial director of FERAG UK, Harlow. He was company secretary.

★

Mr John Hayter is joining GEOFFREY MORLEY & PARTNERS on June 17. He will be in charge of Far Eastern equities and is being appointed a director of Geoffrey Morley & Partners and Geoffrey Morley United Managers. He joins from Kleinwort Grieveson.

★

Mr Roy Fenton *is joining* the board of TELESNAPS as a non-executive director. He is chief executive of CEA and chairman of Quadrant Visual Management.

★

Mr Antony D. J. Brown is joining the board of ROBERT FLEMING AND CO. as a director in the corporate finance department. He was previously an associate director in S. G. Warburg's corporate finance department.

★

Mr Andrew J. D. Murray, managing director of Mulit Metals (Scot) has also been appointed to the board of BIJAY MIMTEC, Livingston, as sales director.

★

Mr G. N. Gent (Allied Vintners) has been re-elected chairman of the WINE AND SPIRIT ASSOCIATION for 1987-88, and **Mr T. Q. Abell** (Edward Sheldon) has been elected president.

★

Professor Michael Bromwich, who holds the CIMA chair of accounting and financial management at the London School of Economics, has been elected president of the CHARTERED INSTITUTE OF MANAGEMENT ACCOUNTANTS for 1987-88. He takes over from **Mr Peter Lawrence**, finance director of Thomson Regional Newspapers.

NEW BID OF £315M IN RETURN FOR RECOMMENDATION

WPP offers to raise JWT bid terms

BY NIKKI TAIT

WPP, the British marketing services group which is making an audacious bid for JWT Group, the large and old-established US company which takes in the J. Walter Thompson advertising agency and the PR business, Hill & Knowlton, yesterday offered to raise its terms in return for an immediate recommendation from the JWT board.

In a letter to JWT directors, Mr Martin Sorrell, WPP's chief executive, says the UK company is prepared to raise its cash tender offer from $45 a share to $50.50 "conditional upon JWT's willingness to execute a definitive merger agreement" along the lines already proposed.

The new offer would value the American group at $515m (£315m) against $460m under the existing offer. When WPP made its initial approach last week it announced financing arrangements—a £177m rights issue plus bank loan—to raise up to $530m, so the increased offer plus expenses could be met within this.

WPP says the proposal has been made "to prevent an extended period of uncertainty at JWT, affecting both clients and employees." It has asked for a response by the close of business tomorrow.

The immediate response from JWT yesterday was that the new proposals would be considered along with all other options at the board meeting later this week—which, according to a spokesman, was "tentatively scheduled for Wednesday." JWT has yet to make any formal response to WPP's initial terms, and there has been much speculation about the emergence of a "white knight."

On Wall Street, JWT shares had moved $1⅞ higher to $52 by lunch time.

In his letter, Mr Sorrell also notes that "management has been reported to have been considering a management-led leveraged buyout transaction."

"Under these circumstances," continues Mr Sorrell, "we are confident that the outside directors of your board, with independent advisers, will recognise the special responsibility placed on them in making a fair and thorough evaluation of our proposal."

WPP's shares eased 16p to 1097p.

Frank Gates shares show big jump

By Nikki Tait

BID speculation helped shares in Frank G. Gates, the Woodford-based Ford dealer, to another hefty 75p rise at 280p yesterday—after adding 42p on Friday.

However, Mr Brian Gates, managing director, said the company was not in bid talks and "knew of no reason for the share price movement."

Gates received a 140p-a-share offer from New Zealand-based motor distributor, Giltrap, at the turn of the year, but family holdings—which speak for some 60 per cent of the equity—decided not to accept, and the offer lapsed.

Yesterday, Samuel Montagu, Giltrap's advisers, said the New Zealand company had neither sold nor received any offer for its Gates holding. By the end of the offer, this had risen to just over 20 per cent.

Ferranti again active in US

Ferranti, the defence electronics group, has made its second US acquisition within four days.

Last Friday, it announced the acquisition of the advanced laser technology group from General Electric (USA). Yesterday, it announced agreement to purchase Allegheny International's 90 per cent plus stake in Sciaky, which manufactures welding systems based on resistance, fusion arc, electron beam and laser technologies.

Sciaky, which is based in Chicago, employs about 300 people

Henderson Admin jumps 54%

A 54 per cent advance in pre-tax profit to £26.4m is reported by the Henderson Administration Group for the year ended March 31 1987. And shareholders see their dividend doubled.

The directors of this international investment management group said the encouraging results had been achieved against a background of strong world stock markets and considerable growth in funds under management—up 63 per cent to £7bn. But the current year, they added, might prove to be more one of consolidation.

In 1986-87 the group increased its revenue from £26.8m to £46.3m and its operating profit from £13.3m to £21.7m. Interest received and investment income rose to £5m (£4m), while interest payable came to £320,000 (£165,000).

After tax £9.75m (£6.9m) attributable profit worked through at £16.7m (£10.3m). Earnings were 80.44p (49.62p) before transfer to initial charges equalisation reserve, and 64.55p (48.08p) after such charges.

Adjusting for last year's scrip issue the dividend is in effect doubled to 25p net, the final being 19p.

The directors said the group had made worthwhile progress in broadening the client base internationally.

Funds had grown, new clients added, and the international offices were expanding. International growth would continue, coupled with the maintenance of commitment and service to the domestic client base.

The group had not hesitated to make commitments to its own long term capabilities. A major upgrading of information and accounting systems will be completed during 1987, a period which must also bear the expense of the move to a new head office.

The group accepted those short term costs but there was a need to maintain a strong balance sheet—both to be able to invest for the future and as a partial protection against less robust market conditions.

● **comment**

Henderson's revenue increase was indeed impressive but second-half costs turned out to have been higher than expected and the pre-tax figure brought initial disappointment. Probably this was unjustified: much of the increased spending was exceptional investment in information systems, the move to Finsbury Avenue, and the setting up of new offices overseas, only the timing of which can have come as any surprise. These high levels of spending will continue in 1987, but Henderson is being cautious when it talks of a year of consolidation. Present levels of growth in funds under management lead analysts to forecast a 20 per cent rise in pre-tax profits to around £32m for a prospective p/e multiple of 15½ at yesterday's £15.50. Post-election prospects of higher disposable incomes, further spurs to share ownership and a healthy UK stock market provide a favourable background for buoyant medium-term growth, but the sector as a whole has recently undergone a sharp upward re-rating and Henderson is looking fairly fully valued on its slight premium to the average.

BOARD MEETINGS

TODAY

Interims: Carroll Industries, J. A. Devenish, Dundee and London Investment Trust, J. H. Fenner, Thomas French, London and Clydeside, Watson and Philip.

Finals: Alphameric, BSS, Bradford Property Trust, Cape Industries, Centrovincial Estates, Dawson International, EMAP, Fuller Smith and Turner, Gilbert House Investments, Gold Greenlees Trott, House Property Co. of London, Meyer International, Northern Foods, Paul Michael Leisurewear, S. & U Stores.

FUTURE DATES

Interims—	
Berisford (S. and W.)	June 18
Daily Mail and General Trust	July 9
Hewtin	June 18
Jersey Electricity	July 16
Television South	June 30
Finals—	
Brookmount	June 23
Kleen-E Ze	July 13

Gee/Rosen suspended

Gee/Rosen Organisation's shares were suspended at 63p yesterday on the USM at the company's request pending an announcement.

Last month this clothing retailer and wholesaler announced that it had called in the police to probe the disappearance of more than £100,000 of stock which it said seemed to have disappeared over a period of six months.

As a result, the company said, profits for the full year to end March were unlikely to be larger than the first half's £159,000, compared with the previous years £403,000.

The company's shares were placed on the USM in June 1984 at 33p each.

Wordplex re-financing package blocked

By David Thomas

Shareholders of Wordplex Information Systems, loss-making office automation group, yesterday blocked Wordplex's refinancing package, leaving the way for Apricot Computers to press home its bid for Wordplex.

Advisers to the two companies met last night to consider whether Wordplex's board would be able to recommend Apricot's bid.

However, some executives in Wordplex believe that other bids may emerge for the company, though there are none on the table at present.

Wordplex's refinancing package was supported by less than 75 per cent of its shareholders, the figure which the company needed. The voting at the extraordinary meeting was 2.79m shares (65 per cent) in favour and 1.52m against.

Wordplex had put together a £12.3m financing package involving a placing of shares, a rights issue and revised banking facilities. It had also agreed a new business strategy with Octagon Industries, a management services concern specialising in the information technology field.

Dr Geoff Bristow from Octagon, who is also Wordplex chief executive, said Wordplex and Octagon would not be trying to put together an improved refinancing package. Octagon's role in Wordplex would end once Wordplex's future was determined.

He added: "my role now is to assess all the options and to work to get the very best solution for the shareholders and employees."

Dr Bristow said Wordplex and Octagon would be in a strong position in any discussions with Apricot because of the large number of votes cast in favour of the re-financing proposal.

Mr Roger Foster, Apricot chief executive, said the blocking of the re-financing proposal removed a significant obstacle to Apricot's bid going ahead. Apricot is planning to issue its offer document today.

Apricot is offering 13 of its shares for every 10 Wordplex with a cash alternative of 130p. Yesterday Apricot closed up 1p at 111p and Wordplex closed 4p higher at 138p.

Barclays de Zoete Webb, Apricot's advisers, bought 175,000 Wordplex shares on Friday.

Aitken Hume lifts profits to £7.2m as recovery continues

Aitken Hume International, the financial services group, has continued its first half recovery with a year-end turnround in its pre-tax figure from a £2.48m loss to £7.18m profit after increased profitability across the group.

Lee Ming Tee Group, the investment and financial services company and Rawda Investments, a Saudi Arabian investment company, each own a stake of more than 24 per cent in Aitken, which was the subject last year of a failed bid from the Tranwood Group, Mr Nick Oppenheim's shell company.

In the year to March 31, US funds under management rose from $2.5bn to $3.5bn, with a profit of £6.5m (£3.74m), while UK funds under management rose from £120m to £165m with a profit of £728,000 (£49,000 loss).

Management had been strengthened at National Securities and Research in the US, said directors. Three new funds were being launched to give a better balance to NSR's business spread.

In the UK, fund performance had been excellent. Since the year end, three funds had been launched.

The board recommended a final dividend of 2p, compared with a 2.25pj final last time. There was no interim. Earnings per share were 10.51p, compared with a loss of 11.42p last time.

After the launch of a new range of unit-linked products in October, Sentinel Life showed a 51 per cent increase in assets under management from £61m to £92m, and an increased appraisal value from £18.2m to £20m. Profits rose from £1.43m to £2.06m.

A high level of liquidity had had to be maintained by the bank because of the uncertainty created by the Tranwood bid, said directors. But profits—up from £463,000 to £731,000 — reflected the underlying improvement in the quality of the loan portfolio.

The group still owns six properties, but terms have been agreed for sale of three of these. The remaining three have a gross value of £3.6m and should be disposed of by the end of 1987. This compares with a gross value of £14.3m as at March 31, 1986.

The extraordinary debit of £2.57m comprises £1.8m for property, a £225,000 credit for strategic investments, £887,000 bid defence costs, and £109,000 for leasing.

The group's net tangible assets at March 31 were £27m (£25.4m). Total group borrowings had been reduced from £27.4m to £17m, reflecting the sale of strategic investments and the property portfolio. Since the year end, borrowings have been further reduced to £15m.

Tax rose from £1.92m to £2.38m.

See Lex

Hunting Group hits £7m

Hunting Group, which derives most of its profits from related companies Hunting Petroleum Services and Hunting Associated Industries, yesterday reported a £1.89m rise in 1986 profits to £6.95m pre-tax.

Respectively, the two related companies contributed £2.49m (£3.03m) and £3.41m (£2.19m).

New England Properties, in which the Hunting Group disposed of 13.05m shares in March, returned profits of £31,000 compared with previous losses of £319,000 and Hunting Painting Contractors reduced its losses from £193,000 to £57,000.

Of the continuing activities shipbroking made £900,000 (£1.65m), property refurbishment £103,000 (£75,000) and financial services £318,000 (£64,000).

Earnings per 25p share amounted to 21.42p (13.21p). A final dividend of 4p makes a same-again 6p total.

Below the line extraordinaries accounted for £1.91m (£2.84m) of which £1.79m related to termination of discontinued survey activities at Hunting Associated Industries and reorganisation of a subsidiary.

UDO consolidates with £1.6m buy

UDO Holdings is buy Harper and Tunstall for £1.62m, satisfied by the issue of 711,818 shares at205p and £161,000 cash. Shareholders' approval will be sought.

Harper makes and distributes diazo machines and consumables and supplies drafting materials and equipment from its base in Wellingborough.

In its last two financial years it incurred losses of £796,000 and £2m principally because of severe competition. But it also suffered from production difficulties and deficiencies in its costing systems. At March 31 its net assets were £1.9m and total borrowings £3.1m.

In April UDO became a major manufacturer of diazo-related products through the acquisition of Aarque Systems. The purchase of Harper provides an early opportunity to consolidate that position.

Brown Shipley profits advance

By David Lascelles, Banking Editor

Brown Shipley, the small accepting house group which fought for its independence last year, increased its profits after tax and transfer to inner reserves by 27 per cent to £3.95m in the year ending on March 31.

But the cost of fending off unwelcome shareholders, plus some losses on premises transactions created £500,000 of exceptional items which reduced the final figures to £3.45m.

The group's big battle was with Henry Ansbacher merchant bank which built up a major stake. This was eventually acquired by Kredietbank Luxembourgeoise which now holds 29.3 per cent. In addition, Mr Giorgio Rossi, the former chairman of SNIA VISCOSA, hold 15 per cent, putting nearly 45 per cent of the group in "friendly hands."

Lord Farnham, the chairman, said yesterday that any speculative interest in Brown Shipley stock was now "ill-founded." Brown Shipley's shares closed at 548p down 10p last night.

The major contributor to earnings was the banking group with £3.3m, up from £2.7m last year, with good results from leasing, corporate finance, and the Channel Islands banking companies. Medens Trust, the instalment credit subsidiary, was unsettled by the uncertainty surrounding the group and turned in lower results.

The year also saw the establishment of Brown Shipley's stockbroking services with the acquisition for £12m of three firms, specialising in services to the individual client. These made "a major contribution" to profits.

The insurance group earned £1.2m, up from £864,000. The group is being restructured into divisions focussing on individual and corporate services. Earnings from South Africa were affected by currency factors.

During the year, Kredietbank made a £15m loan which enabled the banking group to increase its lending. But Lord Farnham said that the full benefits of the association had yet to come through.

CONNELLS (Estate Agents) is acquiring Chilvers, a firm of commercial property surveyors based in Reading. The initial consideration is £1.25m, to be satisfied by £500,000 in cash and the allotment, credited as fully paid, of 221,894 ordinary to the value of £750,000. A further tranche of 73,964 ordinary will be allotted to the value of £250,000 following the audit of accounts for the year 1988.

Freshbake up to £6.6m helped by acquisitions

BY ALICE RAWSTHORN

Freshbake Foods Group, the fast growing frozen food concern, yesterday announced pre-tax profits of £6.6m for its last financial year. This compares to reported profits of £2.5m for the previous year, or a pre-tax loss of £1.04m if the recent acquisitions of Wold and Slaters are included.

The group has expanded rapidly with a flurry of acquisitions since it joined the USM in 1983. When it went public Freshbake specialised in meat pies, it has since created a boardly based frozen food business and graduated to a full listing in January.

Group turnover increased to £169.5m (£149.6m restated) in the year to April 4, although both the Freshbake and Slaters businesses sported faster growth of 20 per cent during the year. Operating profits almost doubled to £10m (£5.5m).

Within the manufacturing division the integration of Slaters—which was acquired for £14m in July—has been completed. The only problematic area was Uncle Wong, which suffered intense competition within the prepared foods market but has since returned to profit. The rest of the division benefited from improved operating efficiency.

The group intends to develop its own "Freshbake Foods" brand name by bringing all brands within the division into its ambit. This process should be completed in the next 18 months.

Frehbake is now integrating Wold — acquired as a loss-making concern in December for £8m—within the vegetable division. Last month it entered into a joint venture with Frigoscandia, whereby the two groups will process Wold's vegetables through FrigoFresh.

The distribution division made a small loss last year but should move into a modest profit in the present year.

Earnings per share rose to 8.8p compared with the 6.1p reported last year and the restated loss of 4.5p. The board proposes a final dividend of 1.6p making 2.3p (1.9p).

Since the year end Freshbake has acquired the rump of Wold's interest in Premier Vegetables. It intends to pursue further "niche" acquisitions this year.

● **comment**

Freshbake has barely paused for breath since it went public three and a half years ago. Its strategy of buying unprofitable food companies and steering them back into the black sounds fine in theory; but in practice has been far from flawless. In 1984 it floundered in its attempts to get to grips with Baughans. But Freshbake weathered the storm and the long term objective of creating a broadly based food group with a few large scale production plants suddenly seems feasible. Much of the growth within these results is gleaned from effecting economies of scale within the established businesses. The benefits of reorganising Slaters should filter through this year and Wold thereafter. Thus the shares, which rose by 4p to 176p yesterday, are fairly valued, on forecast profits of £10.2m and a prospective p/e of 16.

UK COMPANY NEWS

Reed to net £250m from DIY sale to Williams

BY NIKKI TAIT

Reed International, the publishing, packaging and paper conglomerate yesterday confirmed that it was selling its paint and do-it-yourself division to Williams Holdings, the fast-growing industrial conglomerate.

The purchase price is £285m cash, but the businesses will bring with them £25m in cash and the net proceeds (after expenses) for Reed will be some £250m. In the year to end March, they made operating profits of £22.5m on sales of £308m. Adjusted net assets including the cash were £110.2m.

The deal, which is conditional on approval from both companies' shareholders, is Williams' largest acquisition to date and almost doubles the *size of the group. It will be* funded by the issue of 36.3m shares — representing 42 per cent of the enlarged issued capital. These shares have been placed with institutions at 785p, but there is a clawback for existing shareholders at the same price.

Williams shares were suspended at 835p yesterday, and are likely to be restored on Wednesday morning. Reed gained 20p to 485p on news of the deal.

The Williams deal was announced three days before the final closing date when bids for the division, put up for sale by Reed last month, had to be in. However, Williams not only offered the highest price, but was also willing to complete the transaction swiftly.

Moreover, Reed stressed yesterday that it wanted a purchaser who would keep the business together and to protect the future interests of both employees and management. Williams, though involved in DIY through the likes of Rawlplug and Swish curtain tracks, has no directly similar interests and is unlikely to make major disposals or rationalisation.

Management of the division—best-known for its Crown paints and Polycell do-it-yourself products—itself put together a management buyout scheme but was unable to go beyond £220m. Even then, it considered bringing in an industrial partner, but would still have been some £20m short of the Williams terms. "There has to be a price at which you walk away," commented Charterhouse Development Capital, which advised on the buyout. "Anything else would be irresponsible."

Yesterday Reed's chief executive, Mr Peter Davis, said that he believed management would now go to Williams, with the exception of Mr Peter Burns, the Reed director who led the buyout. "Obiously we are *disappointed,*" commented Paul Lever, managing director of Crown Paints, "but there comes a point when you cannot go on leveraging up a business."

Williams, on the other hand, argues that there should be no earnings dilution from the acquisition during 1987 and significant enhancement thereafter. Apart from acheiving its objectives of more US exposure—one-quarter of group profits will now come from there—and more consumer product bias, the acquisition could help the push of Williams existing products into Europe and the States through the Reed interests' distribution network.

"It's the best deal we've ever done," said an ebulliant Brian McGowan, managing director, yesterday.

Reed, meanwhile, reported *net debt of £188m at its March* year-end and so will now have a sizeable cash surplus. The company says it will continue to make small "infill" acquisitions and will continue to look at larger deals in both the US and UK.

When it put the division up for sale, Reed said this was part of its policy of concentrating on the development of its publishing, paper and packaging interests.

GKN diversifies into building maintenance

By Alice Rawsthorn

GKN, the automotive components and engineering group, yesterday announced its diversification into the building maintenance field with the acquisition of General Plumbing and Roofing Services, a privately-owned company, for £6.75m.

GPRS, based in the Greater London area, is involved with plumbing, roofing and maintenance. Once the acquisition is completed GKN intends to use the company as the base from which to build a national network of maintenance services specialising in emergency call-out.

Mr John Jessop, GKN's managing director of industrial *services, said that the group* perceives building maintenance as an area of high growth.

It intends to accelerate GPRS's expansion into new areas of activity, such as electrical repair and decorating services, and to develop a national network of building maintenance businesses through *a combination of acquisitions* and start-ups.

Since its formation in 1975, GPRS has built up a business with a turnover of £6m last year. GKN has funded the acquisition by the issne of 504,278 shares and two tranches of loan notes.

The present management team will continue to run GPRS after the completion of the deal. Mr Jessop said it would function as an autonomous business in the industrial services division.

GKN is now eager to expand further within industrial services through acquisition. *According to Mr Jessop it will* augment existing interests and will diversify into other new areas of activity.

F. H. Tomkins increases stake in Ransomes Sims

BY STEVEN BUTLER

F. H. Tomkins, the acquisitive industrial holding group, yesterday threw down a marker on the lawnmower and machinery maker, Ransomes Sims & Jeffries, with the disclosure that it had purchased 250,000 Ransomes shares, bringing its holding to 5.85 per cent.

Mr Jim Sanger, a Tomkins director, said that Tomkins, which recently bought Smith and Wesson, the US gun manufacturer, had *no intention of* following through with an immediate bid for Ransomes, but would not rule out the possibility of an eventual takeover attempt.

Tomkins has held a previously undisclosed stake in Ransomes just under the 5 per cent mark for several years. Mr Sanger said the most recent block of shares were bought because they were offered at an attractive price, which he would not investment," said Mr Sanger. disclose. It's a long term "If they (more shares) come up, and they are at a reasonable price, we might buy some more."

Ransomes shares jumped 26p to close at 307p yesterday, bringing its market capitalisation to £85.1m. In 1986 Ransomes pre-tax profits rose 13.8 per cent to £8.04m.

Tomkins is capitalised at about £341m, including shares issued in connection with the Smith and Wesson purchase which are expected to begin trading on Thursday. Tomkins said yesterday that about 80 per cent of the new shares had been subscribed by existing shareholders.

City analysts yesterday said Ransomes would be a logical fit for Tomkins, whose subsidiary Hayters is also in the lawn mower business. A bid for the company could follow if investor excitement over the Tomkins stake does not push prices too high, they said.

Ransomes could not be reached yesterday for comment.

BICC buys Derby builder

BY STEPHEN BUTLER

BICC, the construction and electric cables conglomerate, has moved further into the residential house construction business, announcing yesterday the purchase of the Derby-based builder, David M Adams *Developments, for £9.45m cash.*

The acquired company will operate as Balfour Beatty Residential Estates and will be managed by Balfour Beatty Homes, the UK residential development arm of Balfour Beatty, which is part of BICC.

The domestic home-building business is seen to have excellent prospects for growth and diversification, although is currently a relatively small part of Balfour Beatty's anual turnover of £988m last year.

David M. Adams has what BICC says are "substantial" holdings of residential land in the Derby area and in Surrey, and will significantly increase the housing land bank in Balfour Beatty Homes.

Mr R. C. Rankin, Balfour Beatty chief executive, said the group was now set to complete 1,000 homes in 1988.

Utd. Glass

United Glass Holdings, jointly owned by Distillers and Owens-Illinois of the US, increased pre-tax profits from £11.35m to £12.19m for the year ended November 29 1986.

The results, which included those of Canning Town Glass as from September 4, were struck after a £4.49m (£1.02m) provision for the cost of the *continuing rationalisation of facilities.*

Since the end of the financial year, the company has sold its interests in the plastic containers, closures and glass tableware businesses. Proceeds are lower than the book value of the related tangible assets and this difference has been charged as an extraordinary item of £7.9m.

An estimated £3.5m surplus has, however, not been taken into account

Charter sells MMC stake

Charter Consolidated, the mining, manufacturing and investment group, yesterday raised £38m from the disposal of its 13.8 per cent stake in Malaysia Mining Corporation.

Mr Richard Wakeling, Charter finance director, said the sale had been mooted for some considerable time as part of the group's policy of disposing of its passive investments. Yesterday, the timing had appeared right because of the high price of MMC shares, which are listed on the London and various Far Eastern stock exchanges.

Charter's stake was placed with institutional investors by Hoare Govett and J. Henry Shroder Wagg.

MMC is controlled by the Malaysian government. In addition to its tin mining operations, it owns 15 per cent of fund managers Sime Darby and an indirect interest in the Argyll diamond mine of Australia. Charter had two non-executive directors on its board, who will now resign.

Irish placing cancelled by Atlantic Resources

By Hugh Carnegy in Dublin

Atlantic Resources, the Dublin-based oil explorer, yesterday abruptly withdrew an I£ 4.35m share placing announced only last Friday. The move was the latest of a long series of disappointments for the Irish oil business.

Because of the obligations of secrecy to its partners in its Celtic Sea exploration interests, Atlantic said it could not give details of why it had cancelled the placing. But the company said British Petroleum, the operator on the latest well to be drilled in the Celtic basin in which Atlantic has a 20 per cent share, was due to make a statement this week.

The clear implication is that the well, in licence block 50/6, has failed to prove the existence of recoverable crude reserves despite a promising find in the block last year.

BP was not expected to report on the latest well, in which Aran Energy and Hydro-Carbons of Ireland also have 20 per cent interests, so early. Atlantic appears to have been caught by surprise by the arrival of news over the weekend but decided to move quickly before any trading had taken place in the new shares.

Friday's issue of 15m new shares with British and Irish institutions at 29 Irish pence was two pence below Friday's closing price.

Yesterday, the Atlantic price fell to 23 Irish pence. It had been as high as 56 Irish pence earlier this year before disappointing news from another well operated by BP in licence block 49/9 last month.

COMPANY NEWS IN BRIEF

KENMARE OIL Exploration has acquired Irish Marine Oil and changed its name to Ken*mare Resources. The basis of* the offer was two new Kenmare 25p ordinary for three Irish Marine 5p ordinary. Kenmare's chairman said that for holders in Irish Marine it translated their existing investment into shares which had a dealing facility in both London and *Dublin. For Kenmare holders* the merger gave the company control over the exploration licences held by IMO as well as access to a cash fund of about £1.8m.

SHARE STAKES

Changes in company share stakes announced over the past week include:

Grand Central Investments—Mr Ishwar Nahapan, chairman, sold 2m shares, reducing his holding to 10.57m or 39.2 per cent. Mr Nahapan has undertaken not to reduce his beneficial holding further *before June 30 1988.*

Edinburgh Financial Trust—Caparo Investments acquired 125,000 ordinary and now owns 2,568,000 (9.2 per cent).

Etam—Directors R. C. East and A. E. Woolf disposed of 50,000 each.

Newarthill — Director K. McAlpine sold 26,000 ordinary.

Regalian Properties—Director J. L. Goldstone disposed of 50,000 shares.

John Haggas—Mr Richard Haggas, brother of chairman Brian Haggas, sold 1m ordinary and is now interested in *1,818,926* (9.1 per cent).

North Sea and General Oil Investments — Highland and Islands Oil and Gas Company sold 1.450m ordinary and as a result its interest is below the notifiable level.

Bristol Channel Shipping—James Ferguson Securities disposed of 1,375,000 ordinary, reducing its holding from 8.04m (10.07 per cent) to 6,665,000 (8.35 per cent) shares.

Bardsey — Director Michael Pearson acquired 300,000 ordinary (1.31 per cent) on exercise of warrants to subscribe for *ordinary* and now holds 5,975,000 (26.17 per cent).

Attwoods—Hawley has purchased through a wholly-owned subsidiary 375,000 ordinary and now has an interest in 13,919,000 shares (27.6%).

Barry Wehmiller — Kuwait investment office has a vested interest in 3,250,000 ordinary.

Windsor Securities Holdings—John Carr, chairman, sold 250,000 ordinary (approximately 2.56 per cent) and now holds 523,530 (5.36 per cent).

A. Goldberg and Son—Charterhall became interested in 885,000 *ordinary* (5.18 per cent).

Acatos and Hutcheson—Director J. Weir disposed of 20,000 ordinary and now holds 432,944.

Tyzack Turner—Director D. M. Saunders sold 150,000 shares.

Raine Industries—E. Stanger disposed of 2m shares and no longer has a notifiable interest.

Bejam—Director L. Don sold 25,000 ordinary.

Shandwick—Under executive share option scheme, director A. L. Stoddard acquired 60,606 ordinary.

DIVIDENDS ANNOUNCED

Aitken Hume	2	—	Nil	2	2.25
Hunting Group	4	—	4	6	6
Erskine House	2.8	Aug 6	2.3	†4	3.2
Property Partnerships	5	Aug 3	3.5	8	6
Blick .....int.	1.6	Sept 9	—	—	2
Harmony Leisure‡	**0.1	Aug 5	—	0.1	—
Bardon Hill	§2.85	July 24	2.35	3.9	3.25
Dominion Intl.	3	Aug 7	3	5.5	5.5
Henderson Admin.	19	July 28	*9.5	25	*12.5
Sterling Publishng.	2.2	—	2	2.2	2
Fairbriar	3.3	Aug 10	2.25	4.8	3
City Site .....int.	0.56	—	0.47	—	0.96
Alexon Group	4	—	2	6	3.25
Chamberlain Phipps	3.55	Aug 24	2.95	4.75	4.05
Brown Shipley	6.25	—	6	10	9.5
Freshbake Foods‡	‖1.6	—	1.3	2.3	1.9

Dividends shown pence per share net except where otherwise stated. * Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. ¶ Third market. ‖ Scrip option to dividend. ** 15 months to March 31 1987.

Dominion Intl hit by oil downturn

Dominion International Group, which is undergoing a period of transition as it switches its emphasis to financial services and away from property and natural resources, yesterday announced a decline from £11.04m to £8.56m in pre-tax profits for the year to March 31 last.

The directors said that changes set in motion last year gathered pace, but redirection of the group was of necessity a relatively slow process. Everything that transpired in 1986 underlined the validity of the strategy. It was the speed of the downturn in the oil sector that led to the setback in profits not the strategy itself.

A breakdown of profit by division showed that natural resources tumbled from £3.63m to £923,000; property development was down from £2.17m to £1.37m but financial services improved from £6.35m to £7.75m. Central overheads amounted to £1.49m (£1.11m).

The dramatic decline in oil and gas prices, the directors continued, would have wreaked far worse damage had the company not already steered the emphasis of its activities to the financial services sector. At the end of the financial year the acknowledged growth of financial services represented some 70 per cent of the group's profit.

Highlight of the year was the acquisition of the US computer leasing company, Transnational, from which there has only been a partial contribution in the the 1986/1987 profits. Prospects for Transnational are said to be exceptionally good. Potentially, the directors said, the returns from Transnational could outstrip those of the former property interests by a factor of at least three.

Turnover last year was up from £58.13m to £67.18m. Tax charged was £1.79m (£1.55m) and minorities were £380,000 (£1.49m). The warning in the interim statement of a substantial provision against Southwest Resources' (59 per cent owned by Dominion) investment in William Hunt against the £9.9m book cost of the investment turned out to be a debit of £8.72m (£2.12m debit) so there was an attributable loss of £2.33m (£5.9m profit).

Basic earnings per share before the extraordinary items amounted to 12.34p (17.40p) and 12.53p (16.3p) fully diluted; the dividend is maintained at 5.5p with a final of 3p (same).

Southwest Resources turnover fell 37 per cent to £6.5m (£10.33m) and its pre-tax profit by 74.5 per cent to £923,000 (£3.63m). It wrote off £6.05m in William Hunt, which is listed in Hong Kong and in which it now holds a 2 per cent interest. Last month Hunt completed its restructuring with the injection of new capital and it was hoped that this would lead to some future recovery.

● comment

With pre-tax profits down by 22 per cent, shareholders of this once fast-growing resources, financial services and property group had only one thing to cheer about yesterday — a generous dividend maintained at 5.50p per share. This is evidently what underpinned the 8p jump in share prices to 104p. The current year might not be as bad as the last, but the cost of rejigging out of the property and resources sector will continue to depress earnings. The best to be said is that the company's difficulties are under control, with doubtful assets safely written down. Gearing of the group rose from 50 per cent to 77 per cent, while net assets fell from £47m to £36m. This is not because Dominion has climbed on to a more precarious limb, but because it has disposed of property and put greater emphasis on financial services, where higher gearing is common. Credit lines are still wide open, although expansion of the group this year is likely to be funded by further property sales. With a prospective p/e languishing around 7, on analysts' pre-tax profits forecasts of £10m, investors will want to see more of the goods before committing themselves.

Property Partnerships advances 29%

Property Partnerships, the property investment and hotels group, raised pre-tax profits by 29 per cent from £1.13m to £1.45m in the year ended March 31, 1987.

Net rental income from investment properties climbed from £927,000 to £1.02m, while hotel turnover reached £3.81m (£3.21m). Earnings per 25p share were up 4.2p to 19p and the final dividend is 5p for a total of 8p (6p).

A one-for-one scrip issue is also proposed. This will be achieved by capitalising the balance of the share premium account of £265,711 and £1,065,479, being part of the unrealised revaluation reserve.

Since the end of the financial year the company has arranged to consolidate medium-term facilities into a five-year loan of £1.5m, which has been arranged on competitive terms with National Westminster Bank.

Tax charge was £442,000 (£342,000) and there was an extraordinary charge of £24,000 (£77,000 credit).

The company said it would continue to expand and improve the quality of its property investment portfolio and consolidate the strong trading position of its hotels.

Blick up 31% to £1.8m and signals more growth

Blick, retailer and lessor of time recording and communications equipment, reported a 31 per cent increase from £1.38m to £1.82m in pre-tax profits in the half year to end March last against an improvement of just 6.3 per cent to £7.45m in turnover.

Operating profits showed a 15 per cent gain to £1.73m (£1.5m) last year and Mr Alan Elliot, the chairman, said that this reflected both the continued advance in long term rental business and the growth in equipment sales to end users.

Time recording equipment sales were progressing well with higher value electronic and computerised time sales well in excess of last year.

Commenting on prospects, Mr Elliot said current trading was encouraging, and he looked forward to a successful second half.

Interest receivable in the half year amounted to £133,000 (£94,000 payable); exceptional items totalled £49,000 (£29,000) and tax was £570,000 (£413,000), leaving net profits of £1.25m (£965,000) for earnings per share of 6.23p (5.19p).

The interim dividend is 1.6p against the intimated 1.4p when the shares were floated a year ago.

All-round growth for Erskine House

IN A YEAR when it more than doubled the size of its office equipment business in the UK, the Erskine House Group achieved a pre-tax profit of £4.72m.

That was a 70 per cent advance of the £2.78m reported for the year ended March 31, 1986, and a 57 per cent increase on the £3m as restated for acquisitions.

Earnings were 14.6p (restated 9.5p) and the dividend is raised to 4p (3.2p) with a final of 2.8p.

Mr Brian McGillivray, the chairman, said the company had established itself as the largest independent distributor of copiers in the UK and, since September, had made two acquisitions in the US.

With the success of the office equipment sales and servicing division, it was decided to concentrate on expanding that area in the UK and US, "where there are exciting prospects for growth both organically and by acquisition," the chairman told shareholders.

Erskine Communications, the UK network of Konica U-Bix companies, performed well in pursuing its target of organic growth and was augmented by acquisitions.

During the year Erskine acquired Barratt, the only national dealer in the UK of Canon copiers and facsimile products. The business had been turned into profitability more quickly than expected and achieved a break-even situation months before the target date.

In the US, Zeno Systems (acquired in September) is the largest distributor of Sharp copiers and also sells, leases and services facsimile equipment and accessories. Mr McGillivray reported that trading since acquisition had been steady and prospects for growth were good.

The acquisition (in April) of Mirex Corporation of Texas, which leases and services high volume Ricoh copiers to major accounts, was another important step in developing the US market, the chairman claimed.

Turnover in 1986-87 came to £71m, against £34m and restated £55.8m. After tax and minority the attributable profit was £3.66m (£1.74m and £1.88m). There was an extraordinary profit of £999,000 being the net surplus on the sale of Erskine Bureaux and Sovereign Cleaners.

● comment

Once a rat-catcher, Erskine's more fitting classification within the stock-market bestiary should be that of phoenix. In the four years since Mr McGillivray arrived from Rentokil, the company has been transformed by no fewer than 25 acquisitions. These leave Erskine the largest independent distributor of photocopiers in the UK, and an increasingly significant player in the US after buying Zeno and Mirix. Yesterday's figures reflect the benefits to be derived from cost-cutting and implementing financial controls within the acquired companies —and also the underlying health of the market, as manufacturers increasingly devolve responsibility for service and sales to the independents. But growth by acquisition in the US will be made more expensive this year by bidding from competitors like American Business Machines and Alco Standard, and afflicted by currency considerations. Up 3p t o278p, the shares are on a prospective multiple of 15 if the company makes £7.7m this year. Still good value in the medium term, but it is unlikely that the shares will maintain the pace of the past six months, when they have outperformed the market by a half. And with gearing at 90 per cent, there will be fears of a right issue until the non-core businesses have been sold.

Fairbriar gathers pace for 38% rise

WITH THE second half showing an acceleration, Fairbriar achieved a profit growth of 38 per cent in the year ended March 31 1987.

This Surrey-based property developer and housebuilder lifted its pre-tax profit from £3.32m to £4.59m, on turnover 26 per cent ahead, from £9.15m to £11.49m.

The directors reported that the housing market continued to be buoyant in the company's area of operations, and that the current year had started well.

With a record number of developments under construction or about to start, they anticipated maintaining the company's position of having sufficient resources for the foreseeable future.

They anticipated being able to report continued growth. The recent acquisition of Ryan of Wimborne should make a significant contribution to profits and also help the company to achieve its expansion policy in the south.

After tax £1.61m (£1.33m) earnings worked through at 16.86p (11.61p). The final dividend is 3.3p for a net total of 4.8p, compared with 3p.

● comment

Fairbriar can be distinguished from other housebuilders in at least two ways. One is that it buys land first and decides what it can most profitably build on it afterwards: the other is that this policy combined with its relatively small size enables it to seek out sites which it can acquire through private treaty rather than competitive tender. The result is a whopping margin, up still higher this time from 36 per cent to 40 per cent pre-tax. That could come down a little this year as Ryan's lower-margin business is integrated, but with most of the Richmond development now coming through, the group should have little difficulty in passing the £6m mark. Fairbriar's share price has roughly doubled so far this year, but at yesterday's 265p, the prospective p/e ratio of 13 is still yielding around six points to that other high-growth favourite, Berkeley. The non-capitalisation of £500,000 a year in interest costs would add another point to the multiple but would still leave it at a slightly perplexing discount to the sector.

Taylor Woodrow order book worth around £1bn

SIR FRANK GIBB, chairman and chief executive of Taylor Woodrow, told the annual meeting that the group's total order book was currently standing at around £1bn.

He pointed out that the figure included the value of directly-contracted work and also management contracts on which the group was responsible for the supervision of the overall works but did not include the potential share of work on the Channel Tunnel

Although it was rather early to make predictions for the full year Sir Frank said the group had made a good start in most sectors.

Useful contracts had been acquired in the UK, the Soviet Union, New Zealand, Brunei, the Dominican Republic and US Navy work in the Aleutian Islands.

Sir Frank said as a general indication overall, the results for the year so far were around the same level for those of the same period a year ago.

The company has recently arranged two new financings—a £100m multiple option facility and a £50m sterling commercial paper programme — both of which give the company greater flexibility in providing for its needs.

Bardon Hill rises to £5.8m

MR PETER TOM, chairman of the Bardon Hill Group, yesterday reported that profits had risen for the tenth consecutive year, reaching £5.75m pre-tax for 1986-87.

That was an improvement of 23 per cent over the previous years £4.67m and was attained on the back of a £7.53m improvement in turnover to £85.48m.

Earnings advanced from 8.8p to 11.7p and shareholders benefit via a 20 per cent lift in their dividend to 3.9p, the final being 2.85p.

Mr Tom said that the quarrying activities remained the cornerstone of the group. The first full year of operation of the new primary crusher increased production of crushed stone at Bardon Hill by 29 per cent.

Gross profits for the year to March 31 rose to £20m (£15.09m). Other income added £579,000 (£1.4m), distribution costs accounted for £7.86m (£6.7m) and administration expenses for £5.52m (£3.71m).

Bardon Hill's shares are traded on the market made by Granville and Co. The group is capitalised at some £80m.

Great Portland in £9.4m deal

Great Portland Estates yesterday completed the purchase of 38 Finsbury Square, London and 33/35 Wilson Street, City, for a total consideration of £9.4m. The consideration has been satisfied by the issue to the vendors of 3m ordinary sares of 50p each in Great Portland, and the payment of £925,000 cash.

Baring Brothers, in conjunction with Cazenove, has placed the new shares on behalf of the vendors with institutional and other investors at 285p per share.

The placing of the new shares is conditional on their admission to the Official List. Application has been made to the Council of the Stock Exchange for the new shares to be admitted, and it is expected that dealings will commence next Monday.

The new shares represent approximately 2 per cent of Great Portland's present issued share capital.

EVODE GROUP has purchased Sempol Products, extruder of polyethylene film, for £1.32m paid in cash on completion and £250,000 cash payable in one year.

Alfred Walker negotiating two acquisitions

By David Waller

Shares in Alfred Walker, the small property company run by Mr George Martin, the former chief executive of Pleasurama, were suspended yesterday morning pending the announcement of two acquisitions.

In early trading the shares rose 68p to the suspension price of 360p, following speculation that Mr Martin was about to take his first major steps towards his stated ambition of building a £100m conglomerate.

Mr Martin said yesterday that negotiations were underway for two separate acquisitions in the property and leisure sector. "Very significant relative to the company's present size," the transactions are to be financed by a vendor placing.

Mr Martin joined Walker in April this year when the share price was 185p. Two acquisitions and a two-for-three rights issue later, the company has a market capitalisation of £23.1m at the suspension price. It made taxable profits of just £2,000 in the half-year to October 31 1986.

UK COMPANY NEWS

Alexon shares jump after profits double to £6.9m

BY ALICE RAWSTHORN

Alexon, the fashion manufacturing and retailing group, yesterday saw its share price rise by 20p to 368p when it announced that pre-tax profits had doubled to £6.9m in its last financial year.

The group's growth was fuelled by improved performances from both the Alexon retail and wholesaling activities and from Claremont Garments which manufactures women's outerwear for Marks and Spencer.

Mr Edgar Tarr, Alexon's chairman, said that the company is committed to securing further growth both by "organic and acquisitive means."

In the year to March 28, Alexon's turnover rose to £58.2m (£51.9m) and operating profits to £7.4m (£4.4m). Interest fell to £464,000 (£899,000), but taxation rose to £2.4m (£266,000). Nonetheless earnings per share increased to 22.9p (16.3p) and the board proposes to pay a final dividend of 4p, making 6p (3.25p) for the full year.

The Alexon retail operation, which operated at a loss two years ago, expanded rapidly during the year. There are now 160 Alexon shops and shop-in-shops in the UK and overseas, the group expects openings to continue at the same pace this year.

Mr Tarr said that Claremont saw continued growth in sales and profit margins thanks to the investment in production efficiency and new technology made in the early 1980s. It has diversified into new product areas for Marks and Spencer such as maternity wear.

Hornsea, which the group acquired three years ago, was nursed back to profit during the year but sold to Peter Black Holdings for £3.5m in May. The disposal has eradicated group borrowings and Alexon is now scouting about for acquisitions within related areas of fashion manufacturing and retailing.

● **comment**

The City has long since accepted that Alexon has hauled itself out of the doldrums of the mid-1980s, but the extent of yesterday's profits improvement took even the most optimistic of analysts by surprise. Although the pace of improvement at Alexon has already eased; the business has lots of scope for margin improvement by securing economies of scale through the expansion of its retail base. Claremont has operated so efficiently for so long, that the group has opted to maintain margins this year in return for volume gains. These established businesses should yield profits of £8.5m this year: putting the shares, which have trebled in value since the traumas two years ago, on an undemanding prospective p/e of 13. And Alexon could add a *frisson* with acquisitions. Although after the tussles with Hornsea, it is unlikely to stray outside the fashion industry.

Sterling Publishing makes first acquisitions

Sterling Publishing Group, a leading publisher of annual international technology and management reviews, yesterday announced its first full year results as a public company and also its first two acquisitions.

In the year ended March 31 1987 Sterling raised pre-tax profits from £939,000 to £1.06m, on sales 39 per cent higher at £7.66m, against £5.5m. Earnings per share were 4.82p (4.49p) and a dividend 10 per cent higher at 2.2p (2p) is proposed.

The company is paying an initial £420,000 plus earn-out for Concorde Services which will extend its activities into the conferences market. Consideration is to be met by the issue of new ordinary shares, of which 71,398 will be issued and held by the vendors and the balance to be the subject of a vendor placing by the company's brokers, Alexanders Laing & Cruickshank, to raise £350,000.

The purchase of ReActions and ICB Publications (the ReActions Group), for which Sterling is paying £350,000 plus earn-out, brings into the group two fast-growing monthly magazines serving profitable specialist areas of the re-insurance market and international banking community.

Again, this purchase will be met by the issueof Sterling shares, with 186,169 to be held by the vendors and the balance the subject of a vendor placing by Alexanders Laing to raise some £175,000.

Sterling said yesterday that its prospects for the current year were looking good, as indicated by a 29 per cent increase in orders received in 1987. The group was continuing to review acquisition opportunities.

City Site Estates in £9m acquisition

Together with a substantial advance in pre-tax profits for the six months to March 31 1987, City Site Estates announced another acquisition. It has reached agreement to purchase Queensbridge Estates for £9.25m.

Consideration for the acquisition will be the allotment of 5,514,286 new City Site ordinary to the vendors which have been conditionally placed at 175p each with a number of institutional investors to produce a net cash sum of £9.25m.

Reflecting the company's policy of expansion through acquisition, profits leapt from £84,519 to £341,965 pre-tax in the first six months with rental income up from £378,561 to £804,942. Tax charged was £63,398 (£22,094) leaving available profits of £253,572 (£37,425) for basic earnings per share of 2.83p (0.5p).

The interim dividend is increased from 0.47p to 0.56p.

Following the acquisition of Queensbridge, the value of the company's property portfolio will be in excess of £56m. It is estimated that the company's annualised rental income will increase to approximately £3.7m.

Chamberlain Phipps ahead of forecast with £5.93m

BY PHILIP COGGAN

Chamberlain Phipps, the adhesives and shoe components group which recently resisted a takeover attempt by Wardle Storeys, yesterday announced profits above the £5.7m forecast at the time of the bid.

However, the costs of retaining the group's independence resulted in a £376,000 extraordinary debit for bid expenses, which was taken below the line.

Pre-tax profits in the year ended March 31 were 15.4 per cent higher at £5.93m (£5.14m) on turnover up 9.2 per cent at £106.1m (£97.2m). Chamberlain has already forecast that this year's profits will increase to £7.25m—a prediction widely believed to be the main reason that the group fought off Wardle's challenge.

The old general industries division, now renamed Chamtek, increased operating profits from £2.49m to £2.95m—the division manufactures industrial adhesives and is a major supplier of vinyl coated papers to the wallpaper industry.

Profits in the shoe components division were hit by reorganisation in the UK moulding subsidiary although the unit moved back into profit in the fourth quarter. Overseas profits were substantially higher, thanks to an improvement in Canada and the elimination of losses at Vinaflex America. Overall, the division increased operating profits by 4 per cent to £3.97m (£3.82m).

A slight fall in the tax charge from £2.18m to £2.09m helped push earnings per share up 33.5 per cent to 9.17p (6.87p). The interest charge was also down slightly to £1.01m (£1.32m), leaving the end-year gearing level at 40 per cent.

The final dividend was set at 3.55p (2.95p), making a total of 4.75p (4.05p). Chamberlain's shares closed unchanged at 148p yesterday, compared with Wardle's final cash offer of 157p.

Paris listing next month for Hanson

By Nikki Tait

Hanson Trust, the industrial conglomerate which last year took over Imperial Group after a £2.6bn bid battle, is to list its shares in Paris from the beginning of next month.

Hanson has appointed Fauchier-Magnan-Durant de Aulnois as its brokers there, and Banque Paribas will introduce the shares to the market. Hanson does not intend to issue any new shares in connection with the listing.

Hanson said that the listing reflected "the widening globalisation of the equity market"; it already has listings in Switzerland and, in American Depository Receipt form, in the US.

The company has no significant manufacturing interests in France. However, Hanson director Mr Martin Taylor added yesterday that the listing does not preface acquisitions there.

Harmony profits pass £0.26m mark

Harmony Leisure Group, formerly Thomal Investments, reported pre-tax profits of £260,498 in the 15 months to March 31 1987, compared with £12,234 in the previous 12 months. These are the first figures since the group joined the USM last year and the dividend is 0.1p net, as forecast in the prospectus.

The group operates public houses with restaurant facilities in London and the Home Counties.

Since the year-end, it has purchased its first freehold property—the Hawley Arms at Camden Lock. It has also acquired a 10-year lease on Reform Tavern and has refurbished an existing house, the Berrylands, at Surbiton.

The trading trend in current outlets continues to improve, say the directors, and with expected additional contributions from recent refurbishments and acquisitions, the company believes the prospects for further growth are excellent.

Group turnover in the 15-month period was £5.05m (nil). There was a tax charge of £90,150 (£3,654). In 1985, the company had extra-ordinary debits of £5,750. Stated earnings per share improved from 0.07p to 1.31p.

Western Motor chiefs lift stakes via option exercise

BY CLAY HARRIS

THE JOINT managing directors of Western Motor Holdings have exercised options to raise their holdings in the car-delivery transporter in time to take advantage of a two-for-three rights issue which will raise £7m towards the acquisition of Penta, the Reading-based motor dealer.

Mr Richard Palmer and Mr Bruce McNeill each bought an additional 2.1 per cent stake at a cost of nearly £119,000 to raise their respective holdings to 3.9 per cent and 5.2 per cent.

The exercise price was 280p against Western's market price at suspension of 345p and the rights price of 330p.

The two men intend to take up their rights, unlike Samuel Montagu, the merchant bank, which now holds 26.4 per cent of Western after the exercise of the options, granted during a management buy-in in March.

J. SAVILLE GORDON Properties has acquired the freehold investment property Jason House, Horsforth, Leeds for £1.12m. The current rent roll for Jason House was £96,240 and reviews occur from 1988 onwards.

ELECTRON HOUSE, electronic componetns and computer peripherals distributor, has completed, via its wholly owned subsidiary Bytech, the acquisition of Comway from Waycom Holdings. Conway, a distributor of Intel sytems, incurred a £98,000 loss in the year ended October, 1986. Consideration is some £0.5m in cash.

KINGSLEY & FORESTER Group has acquired Bolton-based Townsend Cycles for 229,469 shares worth approximately £150,000. Forecast profits for Townsend for 1987 were £75-£100,000 and the company was well on target for the higher figure. The outlook for 1988 was also extremely encouraging.

Peel arranges further finance

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

Peel Holdings, the edge-of-town retail property developer with an extensive industrial property portfolio, has taken its financial restructuring a stage further with the arrangement of a £50m medium-term bank facility.

The facility was arranged by Warburg and lead managed by Barclays and Lloyds.

The company can draw on the facility when it wishes for a period of seven years. The funds available will be used to help the funding of 1.2m sq ft of retail property developments which have a total cost of £75m.

This is Peel's third excursion into the capital markets in the last month. In May it raised £24.1m from an issue of 5.25 per cent convertible preference shares and £35m from a 9¼ per cent first mortgage debenture stock.

Peel's debt-equity ratio has now been reduced to 66 per cent. The debt service charges are at a rate lower than the returns the company is obtaining from its properties. The company has been building up a retail portfolio while relying for its revenue on industrial property rents.

It expects shortly to announce plans for the development of a further 1m sq ft of retail space. This would bring its total portfolio of completed retail developments, those under construction and those immediately planned, to 3.8m sq ft.

The new banking arrangement carries a facility fee of 12.5 basis points and a margin of 25 basis points. It is unlikely that Peel will now need to make any further visits to the capital markets for at least 18 months, although it would be prepared to consider a sterling commercial paper programme.

Goodman in talks

Goodman Brothers, the clothing manufacturer whose shares were suspended on June 4, said that it had entered negotiations that could lead to a substantial acquisition, subject to shareholders' approval.

Goodman's shares had risen from 46p to 63p in the days before the suspension, at which time its market capitalisation was £8.2m.

COMMODITIES AND AGRICULTURE

Mr MacGregor in the hot seat

BY TIM DICKSON IN LUXEMBOURG

MR JOHN MACGREGOR, Britain's new Agriculture Minister, is embarking on what promises to be his most difficult job in a so far impressive political career. Thrown into the middle of the EC's stalled farm price negotiations, which resumed in Luxembourg yesterday, the man who took over in the weekend Cabinet reshuffle from Mr Michael Jopling immediately struck a cautious balance between the pressing need to contain Europe's agricultural surpluses and the domestic political reality of having to protect the interests of British farmers.

"The message we have to present to our farmers is a difficult one," he told his new colleagues in the EC Farm Council. "We all face pressures over the level of farm income and in Britain these have fallen sharply in real terms.

"But at the same time farmers understand that over-production cannot continue. They are looking to us to lead them out of the problem, not further into it. They know that the alternative to decisive action is not the continuation of the present situation but a disorderly descent into chaos."

On a more reassuring note for the farm lobbies, Mr MacGregor added: "The measures of reform have to be fair as between member states and individual producers. I cannot tell my farmers, nor will I, that I have participated in decisions which place on them an unfair share of the burden of adjustment."

Mr John MacGregor . . . struck a cautious balance

Reconciling his two aims will no doubt prove as troublesome as it did for his predecessor, especially as the pressure grows on Ministers in the next few days to agree cutbacks in the EC's spiralling farm budget. But as former Chief Secretary to the Treasury and before that Minister of State at the Ministry of Agriculture, Fisheries and Food (under Mr Jopling), Mr MacGregor would appear to be the ideal man to keep up the pressure for CAP reform.

While his sharp financial skills and clear presentation of economic policy won high marks at the Treasury, Mr MacGregor first established his reputation as the Minister for Small Businesses at the Department of Industry. That was a relatively junior job but at a time when small businesses were very much the new centrepiece of the UK Government's economic strategy he enjoyed a very high profile, bags of good publicity, and an energetic schedule of visits round the country "spreading the gospel."

He is clearly relishing the opportunity to get out and about more and said yesterday that his experience of small businesses had given him a better knowledge of the countryside and of the possible alternative uses for surplus land.

As for farmers, he finds them 'flexible and realistic' though he added, no doubt aware of what is to come: "They can be pretty trenchant at times in what they say". What they will think of Mr MacGregor — cheerful and at 50 just as rubicund as Mr Jopling, remains to be seen. But his articulate style and grasp of the financial realities — he was a director of Hill Samuel in the 1970s — imply a rigourous approach.

Yesterday he was very much playing himself into the new role and refused to be drawn on any specific ideas for this week's negotiations. There has been much talk of new British initiatives to break the deadlock over the Commission's restrictive price proposals but judging by the comments of officials these are likely to concentrate on technical issues like the reimbursement of interest to member states paid on their storage costs, rather than a fundamentally new initiative.

Yesterday's "jumbo" session with the Finance Ministers was followed by discussions with representatives of the European Parliament on the package of so-called socio-structural measures. That meant the serious negotiations—notably on the proposals for a new oils and fats tax and the reform of the agri-monetary system—did not get underway until the early evening.

Export Council sets up fish farming group

By David Blackwell

THE BRITISH Agricultural Export Council, the privately-funded body which aims to promote the sale of UK agricultural expertise and equipment overseas, is setting up a fish farming group.

Fish farming is probably the fastest growing sector in food production industries throughout the world and most countries now have some inland facilities for fish production, according to Mr David Welch, an area executive of the council.

The UK should be selling its goods and services vigorously, and should also be making it easy for fish farming companies overseas to contact UK suppliers.

"There is a wealth of fish farming expertise in the UK, ranging from consultancy to the manufacturing of equipment, feed and vaccine," said Mr Welch.

Cocoa prices recover from 4-year lows

BY DAVID BLACKWELL

COCOA PRICES dipped to a new four-year low of £1,213 a tonne for the September contract in London yesterday morning before recovering to close at £1,224.50 a tonne, a rise of £3 over Friday's closing price.

The recovery in the afternoon reflected lower sterling against the dollar, as well as a further purchase of 5,000 tonnes by the International Cocoa Organisation's buffer stock manager.

Dealers said the avalanche of selling which sent prices into an early decline involved consumers who had bought cocoa from producers but had not hedged on the futures market. They also saw arbitrage buying against the New York market.

The buffer stock manager started buying cocoa nearly a month ago to defend the "must buy level" of 1,600 SDRs a tonne set by the 1986 international cocoa agreement. He now has 58,000 tonnes in stock, but the indicator price has been well below 1,600 SDRs, closing on Friday at 1519.12 SDRs.

When his stocks reach 75,000 tonnes the "must buy" price will be lowered automatically to 1485 SDRs a tonne — the next level of defence which Mr John Patrick of brokers Gill and Duffus believes the buffer stock manager should be able to defend.

The latest Gill & Duffus Cocoa Market Report, however, chides the market for its myopia in concentrating on the "minutiae of buffer stock operations whilst growing evidence of far more important fundamental developments has received far less attention than it may deserve."

Given the surplus of production in the current season, the report argues that it is reasonable for the market to find a measure of support in the range of 1,485 SDRs a tonne.

US heatwave boosts soya markets

By Our Commodities Staff

EXCEPTIONALLY hot weather in US growing areas at the weekend fuelled fears about possible soyabean crop damage and drove prices sharply higher in the Chicago soya complex yesterday.

In early dealings soyabean futures registered gains of up to 24.5 cents a bushel, pushing all positions except prompt July above the $6 a bushel mark. At the same time nearby soyameal futures rose above the 190 cents a ton mark, with gains of 8 to 10 cents a ton, and rises of around 0.5 cents a pound took nearby soyaoil above 17 cents.

In London the August position on the soyabean meal futures market closed £5.35 higher at £139.60 a tonne while the December quotation was up £9 to £142.75 a tonne.

Prices for soyabeans and products had already shown strong gains

The jewel in Guinea's crown

BY PETER BLACKBURN, RECENTLY IN GBENKO

AFTER A shaky start the Aredor diamond and gold mining project at Gbenko in southeast Guinea is starting to sparkle following sharply improved production and prices combined with reduced operating costs last year.

The Aredor alluvial diamond mine is reputed to be the richest in the world in terms of the average price per carat. High quality gemstones are estimated to account for 83 per cent of its production.

The project, managed by Australia's Bridge Oil group, is forecast to make an operating profit of $19m on sales of $54m in 1987.

"Aredor is likely to be the largest single contributor to Bridge group profit in 1987," according to Mr Steven Koroknay, the group's general manager, resources.

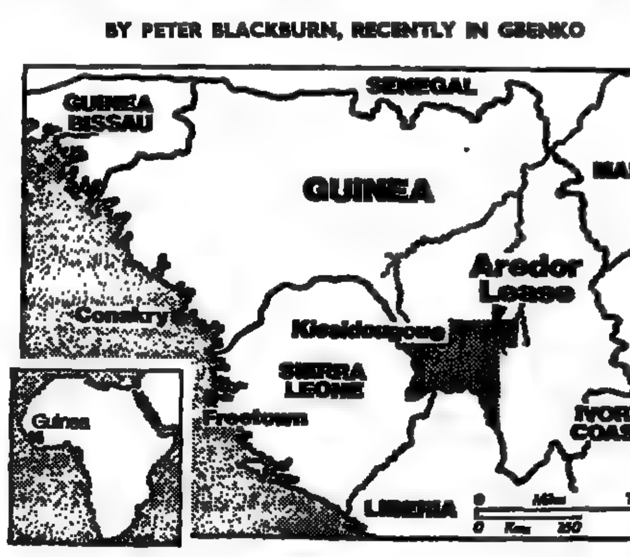
Earnings from the project are expected to rise further when a scheme to extract gold from diamond-bearing gravel starts operating in September 1987. Separate gold mining is envisaged later.

Diamond output rose 54 per cent last year to a record 203,795 carats while prices rose by a similar amount to an average $249 per carat. At the same time operating costs fell 25 per cent, mainly because of savings in fuel and expatriate salaries.

The Aredor project also brought the Guinean Government — a 50 per cent partner in the venture — revenue of nearly $13m last year. Previously government revenue from diamonds was negligible. Private Guinean miners smuggled their output into Liberia, Sierra Leone and the Ivory Coast. Private diamond mining and trading was banned by the military regime of General Lansana Conte in early 1985.

For political reasons Aredor diamonds are marketed through an independent dealer, Industrial Diamond Company (IDC) of the UK, rather than through the De Beers Central Selling Organisation, which handles about 80 per cent of world output. The stones are sorted in Conakry and independently valued before being flown to London where they are acidised to improve quality and reclassified.

Five sales are held annually in Europe, usually in lots of 40,000 carats, about a fortnight before the CSO sightings. Stones weighing more than 100 carats are auctioned separately. In February Aredor sold a 100.2 carat gemstone for a record $1.6m. About 20 "special size" stones of over 15 carats are mined each month. The average stone size last year was 0.8 carats.



Aredor gems have doubled in value over the past 18 months and are now averaging $270 per carat, about 30 per cent more than other uncut diamonds. Bridge expects prices to rise to $290 per carat by the end of 1987, which would be almost 60 per cent above the $185 forecast in the feasibility study. When the decision to invest in the Aredor project was taken in 1981 diamond prices were riding high, but soon afterwards they started falling.

Sydney-based Bridge Oil is managed with a 79.2 per cent stake in Aredor Holdings. Other members are the International Finance Corporation, the World Bank's private sector lending affiliate, Industrial Diamond Company of the UK, BT Australia and Simonius, Vischer of Switzerland. The Aredor diamond project involved an investment of $21m and was the first major western investment in Guinea since the Friquia and Boke alumina and bauxite projects in the 1960s and 1970s.

How did an Australian oil company with no experience of either Africa or diamonds become involved in the Aredor project. One factor was personal links between Mr Robert Vischer, a Swiss diamond dealer and Mr Robert Strauss, Bridge Oil's chairman.

The first approach was made during the late 1970's when Guinea was still ruled by the mercurial President Sekou Toure. An Australian company was seen as more politically acceptable than a European or American company. The lease area, on the Sierra Leonean and Liberian borders, had previously been mined by Soguinex, Selection Trust's French subsidiary, until it was forced to leave as a result of political friction following independence in 1958. The Soviet Union took over but it too was shown the door in 1967.

Since then the region has been exploited by small scale Guinean miners. Bridge isn't venturing into virgin diamond territory, observers point out. The Aredor operation is different because it involves deeper mining and more intensive extraction," Mr Koroknay explained. The grade (concentration) of diamonds is low but the value of diamonds is high. "A big throughput is needed to make the mine economic," Mr Koroknay explained. Some 6,000 tonnes of gravel have to be washed and screened in order to produce 120 grammes (600 carats) of diamonds a day.

Bridge hired a team of veteran British miners with extensive experience of the diamond mines in neighbouring Sierra Leone. There were several important differences in the Guinean terrain, however, with the rivers flowing in opposite directions and the diamonds deeper and more clustered. Aredor's original 25-year lease has been reduced to 9,200 sq kms with mining focused on two concessions covering 730 sq kms.

"Illegal mining is now under control although there is some pressure on the eastern border," said Mr Paul Savoy, Aredor's general manager. Aredor employs an unarmed security force of nearly 150, including 10 expatriates. They are reinforced by 40 armed Guinean soldiers.

About 70 people are arrested each week for illegal mining, kept in the "cooler" and then trucked out to a "safe" distance. With one gemstone worth about a year's salary the temptation is obvious.

As for security within Aredor the secret is that no worker touches a diamond, explained Mr Jim Gildea, chief security officer. Losses are considered to be practically non-existent. Accurate estimation of reserves is another concern. These are currently estimated at 2.4m carats, or about 15 years' production, and include 360,000 carats of proven and 1m of probable reserves. "We have at least five years intensive production," said Mr Alec Medlycott, geology manager.

Production is forecast to remain constant in 1987 and at the end of May was running 4 per cent above target. Some 100,000 sq metres is mined by five draglines monthly to an average depth of seven metres. Production has been increased over the past 18 months by mining through the rainy season, exploiting larger blocks and reducing the amount of dirt mined.

Operating costs have been reduced to $90 per carat while the number of carats produced per expatriate per month has been increased to 175 from 37, according to Mr Rob Jones, the mine manager. Lower fuel costs and a reduction in the number of expatriates were the main factors in reducing costs.

The number of expatriates has been reduced to 109 from 148 in August 1984 and ultimately will be cut to 60. It is estimated that the annual wage bill for 109 expatriates amounts to $4m compared with $2.5m for 1,219 Guinean workers. Productivity will be further increased with a gold recovery scheme due to start in September. For a cost of $400,000 some 10,000 ozs a year of gold, worth about $4m will be recovered, according to Mr Hank Van Viegen, the plant manager.

In addition independent gold deposits have been found at the process plant. The reserves Diarokoro, 36 kms northwest of are considered commercial and contain 0.2 to 0.3 gms per cubic metre. Although not an immediate priority they could be mined later, according to Mr Koroknay.

Now that the Aredor project is starting to make money more attention may be paid to restoring the environment. The mining area around Gbenko resembles a lunar landscape covered with molehills. The land has been stripped bare and brown by the draglines and is in striking contrast to the green, savannah surrounds. "We hope Aredor will soon start to fill in the holes," said Mr Mohammed Diallo, the secretary general of the Ministry of Natural Resources, Energy and the Environment.

LONDON MARKETS

CASH GRADE "A" copper climbed to a 14-month high on the London Metal Exchange yesterday as sterling lost ground against the dollar. In dollar terms the price was actually down from Friday's after-hours close. Dealers said the £9 rise to £975 a tonne mainly reflected "aggressive trade house borrowing" (buying cash and selling forward). The sterling aluminium contracts was also higher, by £14 at £919 a tonne, but the higher grade dollar quotation was down $8.50 at $1,577.50 a tonne. Apart from the currency factor dealers said some speculative buying and short-covering was triggered when standard grade three months aluminium beached the £900 a tonne level. It ended with a rise of £11.50 at £905.50 a tonne.

LME prices supplied by Amalgamated Metal Trading.

LONDON METAL EXCHANGE WAREHOUSE STOCKS (Change during week ending last Friday)

	(tonnes)
Aluminium	−4,975 to 98,425
Copper	+850 to 108,100
Lead	+900 to 20,250
Nickel	+708 to 7,824
Tin	−90 to 27,590
Zinc	−550 to 28,450
	(ounces)
Silver	+60,000 to 22,348,000

ALUMINIUM

99.7% purity	Unofficial close (p.m.) $ per tonne	+ or −	High/Low
Cash	—		
3 months	1575-80	−8.5	1580/575

Official closing (am): Cash — (—), three months 1,578-9 (1,587-9), settlement — (—). Final Kerb close: 1,572-5. Turnover: 475 tonnes.

99.5% purity	£ per tonne		
Cash	918-20	+14	—
3 months	905-6	+11.5	1560/573

Official closing (am): Cash 914-15 (899.5-900), three months 898.9 (888-9), settlement 915 (900). Final Kerb close: 903.5-904. Turnover: 10,225 tonnes.

COPPER

Grade A	Unofficial close £ per tonne	+ or −	High/Low
Cash	974-6	+9	975
3 months	965-6	+9.25	957/946

Official closing (am): Cash 975-6 (964-5), three months 965-5.5 (944-5), settlement 976 (965). Final Kerb close: 966.5-67.

Standard			
Cash	967-60	+18.5	—
3 months	930-32	+11.5	930

Official closing (am): Cash 952-5 (936-9), three months 930-32 (917-20), settlement 955 (939). US Producer prices 74-77.75 cents a pound. Total Turnover: 52,900 tonnes.

LEAD

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	376-8	−8	381/380
3 months	358-9	−0.75	360/358

Official closing (am): Cash 378-9 (388-9), three months 358.5-59.5 (361-2), settlement 379 (389). Final Kerb close: 359-60. Turnover: 6,925 tonnes. US Spot: 24-37 cents a pound.

NICKEL

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	2760-70	−15	2735/2751
3 months	2795-800	−15	2835/2788

Official closing (am): Cash 2,731-5 (2,710-30), three months 2,750-5 (2,750-5), settlement 2,735 (2,720). Final Kerb close: 2,795-800. Turnover: 1,788 tonnes.

ZINC

High grade	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	566.5-67.5	+5.5	—
3 months	536.5-37	+6.5	537/528

Official closing (am): Cash 566-8 (560-1), three months 536-7 (527.5-8), settlement 568 (561). Final Kerb close: 532-3. Turnover: 9,625 tonnes. US Prime Western: 45.5-48.5 cents a pound.

TIN

KUALA LUMPUR TIN MARKET—Close: 16.80 (same) ringgit per kg.

LONDON METAL EXCHANGE TRADED OPTIONS

	Strike Price $/tonne	Calls Nov.	Puts Nov.
Aluminium 99.7%	—	—	—

	Strike Price	Calls July	Calls Sept.	Puts July	Puts Sept.
Aluminium 99.5%	1,450	—	—	14	38½
	1,475	38½	41	24	51½
	1,500	27	31	—	—
Copper (Grade A)	1,550	—	45	22	41½
	1,575	34	34	33	55
	1,600	23	24½	—	—
Copper (Grade A)	$/tonne 980	—	28½	11½	28½
	975	15	17½	23½	39
	1000	7	10½	—	—

Estimates.

GOLD

GOLD BULLION (fine ounce)	June 15	
Close	$449½-450	(£275¼-276)
Opening	$452½-453	(£275¼-275¾)
M'n'g fix	$450.35	(£274.403)
Aft'n'n fix	$449.75	(£274.908)
Day's high	$452½-453	—
Day's low	$447½-448	—

GOLD AND PLATINUM COINS

Am Eagle	$462-467	(£283¼-286¼)
Mapleleaf	$461½-464½	(£282¾-284¾)
Kr'g'rnd	$449-452	(£275¼-277)
½ Krug	$237½-238	(£145¼-145¾)
¼ Krug	$119½-120	(£73¼-73½)
Angel	$458½-461½	(£280¾-282¾)
1/10 Angel	$45-50	(£27¼-30¼)
New Sov	$105-106	(£64¼-64¾)
Old Sov	$105-106½	(£64¼-65¼)
Noble Plat	$598-606	(£365¼-371¼)

COTTON

LIVERPOOL—Spot and shipment sales for the week commencing June 8 amounted to 712 tonnes, against 742 tonnes in the previous week. Fair operations occurred with dealings in Colombian, Egyptian, Russian, Chinese and East and West African varieties.

INDICES

REUTERS

June 15	June 11	M'th ago	Year ago
1608.7	1596.9	1625.1	1548.6

(Base: September 18 1931=100)

DOW JONES

Dow Jones	June 11	June 12	M'th ago	Year ago
Spot	129.64	129.86	—	124.98
Fut	128.30	128.16	—	114.15

(Base: December 31 1931=100)

MEAT

MEAT COMMISSION—Average fatstock prices at representative markets. GB—Cattle 99.39p per kg lw (+0.61). GB—Sheep 213.43p per kg est dcw (−6.60). GB—Pigs 79.73p per kg lw (−0.44).

FUTURES—Pigs: Nov 102.50. Sales: 2.

MAIN PRICE CHANGES

	June 15 1987	+ or −	Month ago
METALS			
Aluminium			
Free Market	$1680/690		$1510/530
Copper			
Cash Grade A	£975	+9	£922.5
3 months	£965.5	+9.25	£898.75
Gold Troy oz	$459.75	+3.75	$475
Lead Cash	£377	−8	£441.5
3 months	£361.5	−0.75	£382.25
Nickel			
Free Mkt	204/224c	−1	204/224c
Palladium oz	$138.00	−1.5	$154.00
Platinum oz	$576.00	−12.0	$628.50
Quicksilver†	$250/260		$265/275
Silver troy oz	457.80p	−17.5	560.45p
3 months	467.75p	−17.7	572.30p
Tin			
Free Mkt	£4140/170	+35	£4090/120
Tungsten	$58.16		$46.93
Wolfram 22.04lb	$48/55		$50/55
Zinc	£567	+5.5	£605.5
3 months	£536.75	+5.5	£505.5
producers	$842		$790/840
OILS			
Coconut (Phil)	$440z	−5	$415
Palm Malayan	$340v		$357.5
Seeds			
Copra (Phil)	$290.5y		$285
Soyabean (U.S.)	$158.5	+2.6	$152
GRAINS			
Barley Fut. Sept	£96.95	−0.25	£98.15
Maize	£155.00		£149.00
Wheat Fut. Sept	£99.35	−0.25	£123.00
No. 2 Hard Wint	‡		‡
OTHERS			
Cocoa Ft. Sept	£1224.5	+3	£1279.5
Coffee Ft. Sept	£1318.5	+11	£1379.5
Cotton A Ind.*	81.35c	+1.5	77.10c
Gas Oil Aug.	$158	+1.6	$154.5
Rubber (kilo)	63.75p	+0.25	62.5p
Sugar (raw)	$171z	+0.4	$181.5
Wooltops 64s	467p kilo		461p kilo

‡ Unquoted. † Per 76-lb flask. c Cents a pound. * Cotton outlook. v July. z June/July. x July/Aug. y Aug.

SILVER

Silver was fixed 17.55p an ounce lower for spot delivery in the London bullion market yesterday at 457.8p. US cent equivalents of the fixing levels were: Spot 749.9c, down 40.85c; three-month 763.1c, down 41.9c; six-month 776.6c, down 42.9c; and 12-month 805.5c, down 45.55c. The metal opened at 466-469p (766-770c) and closed at 459-462p (748-753c).

SILVER per troy oz	Bullion Fixing Price	+ or −	L.M.E. p.m. Unoffic'l	+ or −
Spot	457.80p	−17.5	461.5p	−5.5
3 months	467.75p	−17.7	471p	−6
6 months	477.30p	−17.7	—	—
12 months	496.90p	−18.1	—	—

COFFEE

With no frost reported over the weekend in Brazil early long liquidation eased the market to the day's low in light conditions, reports Drexel Burnham Lambert. Price-fixing and weakening sterling steadied the market throughout the afternoon.

COFFEE	Yesterday close	+ or −	Business done
July	1300-1303	+7.5	1305-1278
Sept	1518-1519	+11.0	1521-1293
Nov	1336-1338	+11.5	1340-1314
Jan	1355-1360	+10.0	1355-1337
Mar	1378-1385	+11.5	1372-1360
May	1390-1400	+6.0	1393-1380
July	1400-1420	+10.0	—

Sales: 2,488 (1,962) lots of 5 tonnes. ICO indicator prices (US cents per pound) for June 12: Comp. daily 1979 104.63 (105.21); 15-day average 107.23 (107.78).

COCOA

After opening unchanged, as expected, futures eased £10 before rallying after buffer stock buying of 5,000 tonnes to close marginally steadier on the day. Physical interest was otherwise restricted to light second-hand and consumer trading on the nearts, reports Gill and Duffus.

	Yesterday's close £ per tonne	+ or −	Business done
July	1244-1245	+3.0	1245-1281
Sept	1224-1225	+3.0	1228-1218
Dec	1249-1250	+2.0	1252-1236
March	1271-1272	+2.0	1275-1257
May	1292-1293	+5.0	1298-1277
July	1307-1308	−1.0	1311-1298
Sept	1326-1328		1330-1320

Sales: 4,048 (3,541) lots of 10 tonnes. ICCO indicator prices (SDRs per tonne). Daily price for July 12: 1,507.64 (1,522.20); 10-day average for June 15: 1,519.12 (1,522.68).

FREIGHT FUTURES

Levels were confirmed to the lower end of the established trading range. Conditions were thin and the physical market continued featureless, reports Clarkson Wolff.

	Close	High/Low	Prev.
Dry Cargo			
July	849/853	856/845	868
Oct.	930	939/930	940
Jan.	936/945	940/935	935/950
Apr.	990/1020	1000/997	1000/1020
July	850/890	—	890
Oct.	900	—	880
Jan.	970	—	970
April	990	—	990
BFI.	973.5	—	977

Turnover: 195 (221).

GRAINS

Old crop wheat failed to maintain the previous week's steady trend, dipping sharply on consumer and shipper-broker selling and closing just off the lows. New crops again attracted speculative selling interest from shipper and consumer sources with merchant support preventing further weakness, reports T. G. Roddick.

Mnth	WHEAT Yest'rdy's close	+ or −	BARLEY Yest'rdy's close	+ or −
July	118.95	−1.15	—	—
Sep	99.35	−0.25	96.95	−0.20
Nov	101.60	−0.30	99.40	−0.20
Jan	104.35	−0.25	101.80	−0.25
Mar	106.60	−0.30	103.90	−0.20
May	109.50	−0.20	105.80	−0.30
July	111.65	−0.25	—	—

Business done—Wheat: July 119.00-7.55, Sept 99.35-9.30, Nov 101.70-1.60, Jan 104.35-4.30, March 106.65-6.60, May 106.50, July 111.65-1.50. Sales: 194 lots of 100 tonnes. Barley: Sept 96.96, Nov 99.40, Jan 101.80, March 103.90, May untraded. Sales: 56 lots of 100 tonnes.

LONDON GRAINS—Wheat: US Dark Northern Spring No 2, 14 per cent: July and Aug 92.50, Sept 92.75. US No 2 Soft Red Winter: July 84.50, Aug 85.75, Sept 87.75. French 11½-12 per cent: June 143.00. English feed, fob: July 121.00-122.00, Sept 101.00-102.00, Oct/Dec 105.00-105.24, Jan/March 99.00-99.50 buyer/sellers. Maize: US No 3 Yellow/French, transhipment East Coast: Spot 153.00. Barley: English feed, fob: Aug 99.00, Sept 100.50 sellers, Oct/Dec 103.00-104.00, Jan/March 107.00-107.75 buyer/sellers.

HGCA — Locational ex-farm spot prices. Feed barley: Eastern 105.00, E. Midlands 103.30, N. East 104.00. The UK monetary coefficient for the week beginning Monday June 22 (based on HGCA calculations using four days' exchange rates) is expected to remain unchanged.

POTATOES

After an initial dip April found strong buying which lifted values £1.40 from the previous close. In lacklustre trade sellers pushed values back to unchanged by midday. Afternoon trade was again light with profit-taking lifting April, reports Coley and Harper.

Month	Yesterday's close	Previous close	Business done
	£ per tonne		
Nov	90.80	90.50	90.80-90.70
Feb	99.50	99.50	—
Apr	130.30	130.10	131.60-129.50
May	143.50	145.50	—

Sales: 323 (334) lots of 40 tonnes.

OIL

	Latest	Change + or −
CRUDE OIL—FOB ($ per barrel)—July		
Arab Light	—	—
Arab Heavy	—	—
Dubai	17.20-17.30	−0.085
Brent Blend	18.75-18.80	−0.05
W.T.I. (1pm est)	19.95-20.00	+0.125
Forcados (Nigeria)	—	—
Urals (cif NWE)	—	—
PRODUCTS—North West Europe Prompt delivery cif ($ per tonne)		
Premium gasoline	199-202	—
Gas Oil	152-154	—
Heavy fuel Oil	111-112	−1.5
Naphtha	169-171	−2

Petroleum Argus estimates.

SOYABEAN MEAL

In a very firm market commercial and speculative buying pushed prices to limit-up with only scale-up option hedge selling in opposition. Further gains were registered on continued hot and dry weather in the US and a lack of nearby supplies with consumers caught short, reports Muirpace.

	Yesterd'ys close £ per tonne	+ or −	Business done
June	—	—	135.0
August	139.2-140.0	+5.35	140.0-135.0
October	141.0-142.0	+7.50	141.0-140.0
Dec	142.0-145.5	+9.00	138.5
Feb	142.5-147.0	+8.25	—
April	145.5-148.0	+7.75	—
June	141.0-147.0	+6.00	—

Sales: 651 (353) lots of 20 tonnes.

SUGAR

LONDON DAILY PRICE—Raw sugar $171.00 (£104.20), up 40c (up £1.80) a tonne for June/July delivery. White sugar $180.60, down $1.60.

No. 6 Contract	Yest'day's close	Previous close	Business done
	$ per tonne		
Aug	154.00-154.2	148.8-144.0	154.8-149.2
Oct	161.40-161.6	155.4-156.6	162.4-157.0
Dec	155.00-165.8	160.0-160.8	161.8-161.0
Mar	170.80-171.2	166.0-169.2	171.4-169.8
May	174.20-174.6	169.0-169.2	—
Aug	177.60-178.6	172.6-175.2	—
Oct	179.00-180.4	174.2-175.8	—

Sales: 3,494 (2,105) lots of 50 tonnes.

Tate and Lyle delivery price for granulated basis sugar was £208.50 (£207.00) a tonne for export.

International Sugar Agreement—(US cents per pound fob and stowed Caribbean ports). Prices for June 12: Daily price 5.38 (5.37); 15-day average 5.42 (5.45).

LME—Turnover: 1 (nil) lots of 10,000 ounces.

Three months high/low 467p, final kerb 470-5o.

PARIS—(FFr per tonne): Aug 1129-1132, Oct 1157-1160, Dec 1172-1185, March 1218-1230, May 1246-1260, Aug 1279-1292.

GAS OIL FUTURES

Month	Yest'rdy's close US$ per tonne	+ or −	Business done
July	155.50	+1.25	155.50-53.25
Aug	158.00	+1.50	158.00-55.75
Sept	160.25	+1.00	160.25-58.50
Oct	162.50	+0.75	162.50-60.50
Nov	162.75	−1.00	162.75

Turnover: 1,746 (559) lots of 100 tonnes.

TEA

There were 30,324 packages on offer at the London tea auction, including 3,400 packages in the offshore section, reports the Tea Brokers' Association.

US MARKETS

A STRENGTHENING US dollar put precious metals markets under pressure for most of the day, reports Drexel Burnham Lambert. Local and commission house selling in the gold, silver and platinum futures eased prices despite trade scale-down buying. However, short-covering towards the close steadied prices and the markets finished with pared losses. Copper also eased on commission house selling, but traded indifferently for the rest of the day. Crude oil steadied on early trade buying which was joined by local buying and short-covering before the trade turned scale-up seller. Trade support was noted in the products. Coffee futures fell as cold weather in Brazil failed to have the expected effect on the markets, forcing traders to liquidate. The decline was accentuated by producers selling. Cocoa rallied on short-covering as fears over dry weather in west Africa continued. Sugar rallied on trade buying touching off commission house stops before trade selling pared gains. Trade and commission house buying steadied cotton. The grains were all sharply higher, especially in new crop contracts as dry weather moved into growing areas. The hog futures rallied on continued fears of tight supplies, a factor which has kept pork bellies buoyant. Cattle futures were quiet, awaiting last night's cattle-on-feed report.

NEW YORK

ALUMINIUM 400.00 lb, cents/lb

	Close	Prev	High	Low
June	74.70	74.80	—	—
July	72.90	73.00	72.90	72.90
August	71.05	71.15	—	—
Sept	70.30	70.50	70.50	70.25
Dec	69.50	69.50	—	—
Jan	69.50	69.50	—	—
March	69.50	69.50	—	—
May	69.50	69.50	—	—

COCOA 10 tonnes, $/tonnes

	Close	Prev	High	Low
July	1942	1933	1949	1921
Sept	1877	1865	1881	1850
Dec	1901	1891	1905	1877
March	1933	1920	1933	1913
May	1963	1950	1965	1942
July	1989	1980	1975	1970
Sept	2018	2008	2020	2000

COFFEE "C" 37,500 lb, cents/lb

	Close	Prev	High	Low
July	109.25	112.02	111.40	108.10
Sept	108.63	113.95	113.30	108.25
Dec	111.27	116.04	115.25	111.11
March	113.30	118.44	117.00	113.00
May	116.00	118.53	118.16	116.00
July	116.00	118.83	118.00	118.00
Sept	118.13	119.05	—	—

COPPER 25,000 lb, cents/lb

	Close	Prev	High	Low
June	71.00	70.85	71.00	71.00
July	71.00	71.00	71.05	70.20
August	70.80	70.30	—	—
Sept	70.00	69.85	70.00	69.10
Dec	69.35	68.90	69.80	68.20
Jan	69.25	68.80	—	—
March	69.05	68.55	68.70	68.00
May	69.10	68.60	68.65	68.65
July	69.10	68.60	69.00	69.00
Sept	69.15	68.65	—	—

COTTON 50,000 lbs, cents/lb

	Close	Prev	High	Low
July	77.75	76.13	78.12	76.70
Oct	74.75	72.88	74.85	73.70
Dec	72.93	71.50	73.40	71.80
March	73.36	72.05	73.98	72.70
May	73.50	72.25	74.25	72.80
July	73.53	72.45	74.45	73.06
Oct	69.00	68.00	69.00	68.50

CRUDE OIL (LIGHT) 42,000 US gallons, $/barrels

	Latest	Prev	High	Low
July	20.07	19.91	20.11	19.86
Aug	19.77	19.62	19.80	19.50
Sept	19.58	19.50	19.60	19.46
Oct	19.49	19.44	19.50	19.42
Nov	19.40	19.39	19.40	19.36
Dec	19.34	19.34	19.38	19.31
Jan	19.29	19.30	19.29	19.28
Feb	19.20	19.26	—	—
March	19.23	19.22	19.23	19.20
April	19.16	19.18	19.16	19.16

GOLD 100 troy oz, $/troy oz

	Close	Prev	High	Low
June	452.6	454.8	452.8	448.0
July	453.8	456.3	—	—
August	456.7	459.9	456.9	451.8
Oct	462.0	464.3	462.5	457.0
Dec	467.3	469.7	468.0	461.0
Feb	472.9	475.5	471.5	467.0
April	478.5	481.3	475.5	473.5
June	484.4	487.4	482.0	479.5
August	490.5	493.8	488.5	487.0
Oct	496.9	500.3	494.0	494.0
Dec	503.2	506.6	504.0	503.0
Feb	509.6	513.4	511.0	507.0

HEATING OIL 42,000 US gallons, cents/US gallons

	Latest	Prev	High	Low
July	52.40	51.85	52.49	51.70
Aug	52.90	52.40	52.95	52.20
Sept	53.55	53.25	53.55	53.00
Oct	54.25	54.05	54.35	53.80
Nov	54.85	54.80	55.00	54.60
Dec	55.60	55.50	55.65	55.30

ORANGE JUICE 15,000 lb, cents/lb

	Close	Prev	High	Low
July	133.80	133.60	134.00	133.60
Sept	128.60	128.10	129.10	128.50
Nov	124.75	124.60	124.95	124.60
Jan	123.35	123.45	123.00	122.80
March	123.35	123.35	123.75	122.80
May	123.35	123.30	—	—
July	123.35	123.30	—	—

PLATINUM 50 troy oz, $/troy oz

	Close	Prev	High	Low
June	577.0	597.8	—	—
July	586.4	587.5	587.5	575.0
Oct	594.5	595.7	596.0	582.5
Jan	601.1	602.7	603.0	590.0
April	607.9	609.9	602.5	598.0
July	615.2	617.2	—	—

SILVER 5,000 troy oz, cents/troy oz

	Close	Prev	High	Low
June	765.7	771.2	748.0	748.0
July	768.0	773.5	772.0	743.0
August	773.0	778.4	765.0	751.0
Sept	778.5	783.8	783.0	753.0
Dec	793.5	799.3	798.0	765.0
Jan	798.5	804.5	—	—
March	808.5	814.9	810.0	789.0
May	819.0	825.8	802.0	802.0
July	830.0	837.3	820.0	811.0

SUGAR WORLD "11" 112,000 lb, cents/lb

	Close	Prev	High	Low
July	6.82	6.59	6.95	6.70
Sept	7.12	6.85	7.18	7.03
Oct	7.22	6.98	7.32	7.10
Jan	7.39	7.23	—	—
March	7.86	7.44	7.73	7.51
May	7.80	7.58	7.79	7.77
July	7.95	7.72	7.95	7.82
Oct	8.09	7.88	8.09	7.94

CHICAGO

LIVE CATTLE 40,000 lb, cents/lb

	Close	Prev	High	Low
June	69.02	69.15	69.17	68.85
August	63.32	63.07	63.36	62.90
Dec	63.40	63.27	63.50	63.10
Feb	63.75	63.62	63.85	63.50
April	64.35	64.29	64.35	63.90
June	63.70	63.60	63.75	63.62

LIVE HOGS 30,000 lb, cents/lb

	Close	Prev	High	Low
June	63.37	62.67	63.57	62.85
July	59.27	58.65	59.56	58.96
August	54.20	53.62	54.65	54.05
Oct	45.65	45.57	46.15	45.57
Dec	45.45	45.30	45.72	45.38
Feb	44.30	44.20	44.75	44.20
April	41.90	41.85	42.15	41.70
June	43.65	43.67	43.67	43.20
July	43.30	43.30	—	—

MAIZE 5,000 bu min, cents/56 lb bushel

	Close	Prev	High	Low
July	197.4	190.2	199.0	194.8
Sept	204.2	194.6	204.6	201.0
Dec	211.6	201.6	211.8	208.0
March	219.6	209.6	219.6	216.0
May	222.4	213.2	223.2	219.0
July	223.6	214.4	224.4	222.0
Sept	222.0	213.0	223.0	220.4

PORK BELLIES 38,000 lbs, cents/lb

	Close	Prev	High	Low
July	78.40	78.07	79.70	78.20
Aug	76.17	76.12	77.60	75.90
Feb	61.40	61.22	62.50	61.20
March	61.10	60.95	62.50	60.96
May	61.50	62.65	63.20	61.50

SOYABEANS 5,000 bu min, cents/60 lb bushel

	Close	Prev	High	Low
July	602.6	574.4	604.0	587.0
Aug	606.2	579.4	609.4	593.0
Sept	614.2	584.2	614.2	603.0
Nov	623.0	593.0	623.0	611.0
Jan	631.6	601.6	631.6	620.0
March	641.2	611.2	641.2	629.0
May	648.0	618.0	648.0	639.0
July	649.0	619.0	649.0	642.0
Aug	646.0	616.0	646.0	646.0

SOYABEAN MEAL 100 tons, $/ton

	Close	Prev	High	Low
July	194.3	185.7	195.4	189.5
Aug	192.2	183.6	193.5	187.0
Sept	193.0	183.7	193.7	189.0
Oct	193.2	193.2	193.2	191.0
Dec	195.7	185.7	195.7	192.0
Jan	197.0	187.0	197.0	194.5
March	199.0	189.0	199.0	196.0
May	199.0	189.0	199.0	199.0
July	198.0	188.0	198.0	198.0
Aug	198.0	188.0	198.0	198.0

SOYABEAN OIL 60,000 lbs, cents/lb

	Close	Prev	High	Low
July	17.28	16.51	17.38	16.79
Aug	17.47	16.69	17.59	16.98
Sept	17.70	16.88	17.77	17.20
Oct	17.91	17.06	18.00	17.40
Dec	18.29	17.39	18.37	17.70
Jan	18.37	17.50	18.48	18.00
March	18.72	17.82	18.76	18.15
May	18.87	18.00	19.00	18.40
July	19.15	18.27	19.15	18.45

WHEAT 5,000 bu min, cents/60 lb bushel

	Close	Prev	High	Low
July	275.6	263.4	277.4	266.4
Sept	281.0	268.6	284.0	272.4
Dec	289.6	276.2	292.4	279.4
March	292.0	279.4	294.4	281.4
May	285.0	274.4	286.4	277.0
July	276.0	267.0	276.0	269.0

SPOT PRICES: Chicago loose lard 14.50 (same) cents per pound. Handy and Harman silver bullion 754.5 (770.0) cents per troy ounce. New York tin 316-19 (316-20) cents per pound.

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Sterling loses ground

THE POUND lost ground in currency markets yesterday. This was partly due to a revival in dollar confidence which had its effect as well as the absence of any switch into sterling that had been expected after the general election.

The dollar attracted most of the attention as speculators decided that it would be unwise to run short dollar positions after Friday's US trade and retail price figures which were both marginally better than expected. This coincided with comments made by Mr Kiichi Miyazawa, Japanese Finance Minister, that the G7 nations were agreed on the dollar reaching its base level.

Others were more sceptical, suggesting that in the absence of any significant progress on resolving the US budget deficit as well as the trade deficit (the latter is still running well above this year's target of a $140bn deficit), the dollar was merely taking advantage of current sentiment, rather than showing a fresh trend.

Various rumours were circulating ahead of President Reagan's address to the nation late last night and this added to traders reluctance to run short dollar positions.

The US unit finished at DM 1.8245 from DM 1.8115, having touched a high of DM 1.8280. Against the yen it rose to Y144.75 from Y143.80. Elsewhere it closed at SFr 1.5130 from SFr 1.50 and FFr 6.09 against FFr 6.0475. On Bank of England figures, the dollar's exchange rate index rose from 101.3 to 102.1.

Sterling fell away as the expected demand by foreign investors failed to materialise. Consequently there appeared to be insufficient impetus to test the Bank of England's apparent resolve to slow any advance above the DM 3.00 level. After touching a high of around DM 2.9950, the pound slipped away to finish at DM 2.9775 from DM 2.9925 on Friday. Against the yen it slipped to Y238.25 from Y237.50. Elsewhere it fell to SFr 2.47 from SFr 2.4775 and FFr 9.9375 from FFr 9.99. On Bank of England figures, the pound's exchange rate index fell to 72.9 from 73.3 at the opening and 73.4 at Friday close.

D-MARK—Trading range against the dollar in 1987 is 1.9385 to 1.7690. May average 1.7887. Exchange rate index 146.5 against 148.2 six months ago.

There was no intervention by the Bundesbank at yesterday's fixing in Frankfurt when the dollar was fixed at DM 1.8240 from DM 1.7973 on Friday.

The firmer undertone reflected comments by the Japanese Finance Minister that the dollar had bottomed out and better than expected trade and inflation figures last Friday. However, the US unit met resistance towards its higher levels as it touched a couple of important resistance levels. Much will depend on further US economic data due for release later this week.

JAPANESE YEN—Trading range against the dollar in 1987 is 159.45 to 138.35. May average 140.55. Exchange rate index 220.6 against 210.8 six months ago.

The yen lost ground against the dollar in Tokyo as the US unit improved on Friday's trade figures. These showed a marginal improvement over April's deficit or $13.6bn at $13.3bn. The rate of inflation as measured by retail prices was also mildly encouraging. However, it met resistance around Y144.50 and came back to close at Y144.35 still up from Y143.95 in New York and Y142.80 in Tokyo on Friday.

Comments by Mr Kiichi Miyazawa, Japanese Finance Minister, that the dollar had reached its bottom appeared to have little effect on trading.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu June 15	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.0589	+1.41	+0.77	± 1.5344
Danish Krone	7.85212	7.80963	0.54	−1.88	± 1.6404
German D-Mark	2.05853	2.07680	+0.89	+0.25	± 1.0981
French Franc	6.90403	6.92836	+0.35	−0.29	± 1.3674
Dutch Guilder	2.31943	2.33970	+0.87	+0.23	± 1.5012
Irish Punt	0.768411	0.775346	+0.90	+0.26	± 1.6684
Italian Lira	1483.58	1502.66	+1.29	+1.14	± 4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

June 15	Latest	Previous Close
£ Spot	1.6375-1.6385	1.6520-1.6530
1 month	0.26-0.25 pm	0.25-0.24 pm
3 months	0.66-0.63 pm	0.61-0.58 pm
12 months	1.70-1.60 pm	1.25-1.15 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

		June 15	Previous
8.30	am	73.3	73.5
9.00	am	73.3	73.5
10.00	am	73.2	73.4
11.00	am	73.2	73.4
Noon		73.1	73.6
1.00	pm	73.1	73.6
2.00	pm	73.0	73.4
3.00	pm	73.0	73.4
4.00	pm	72.9	73.4

CURRENCY RATES

June 15	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.78521	0.696602
U.S. Dollar	5.5	1.2858	1.13860
Canadian $	7.90	*	1.52686
Austrian Sch.	4	16.4888	14.5934
Belgian Franc	7¾	48.6313	43.0589
Danish Krone	7	8.80499	7.80963
Deutsche Mark	3.0	2.3453	2.07680
Neth. Guilder	4½	2.64035	2.33970
French Franc	9½	7.8214	6.92836
Italian Lira	11.5	1695.97	1502.66
Japanese Yen	2½	185.54	164.584
Norway Krone	8	8.64558	7.66446
Spanish Peseta	—	163.177	144.488
Swedish Krona	7½	8.15827	7.22496
Swiss Franc	3.5	1.94217	1.71985
Greek Drach.	20½	175.379	155.327
Irish Punt	—	0.87557	0.775346

*C$/SDR rate for June 12: 1.73756

CURRENCY MOVEMENTS

June 15	Bank of England Index	Morgan Guaranty Changes %
Sterling	72.9	−20.5
U.S. Dollar	102.1	−5.1
Canadian Dollar	77.3	−11.3
Austrian Schilling	137.6	+10.2
Belgian Franc	99.9	−4.5
Danish Krone	93.0	+3.3
Deutsche Mark	146.5	+21.4
Swiss Franc	172.4	+22.6
Guilder	134.8	+14.2
French Franc	71.5	−13.0
Lira	47.2	−18.2
Yen	220.6	+64.4

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

OTHER CURRENCIES

June 15	£	$
Argentina	2.7295-2.7410	1.6740-1.6800
Australia	2.2805-2.2835	1.3945-1.3953
Brazil	61.2100-61.5600	37.5420-37.7300
Finland	7.2130-7.2265	4.4185-4.4205
Greece	221.45-225.80	135.25-137.65
Hong Kong	[illegible]	[illegible]
Iran	118.25*	70.60*
Korea (Sth)	1338.40-1350.55	810.30-816.90
Kuwait	0.45860-0.45890	0.28045-0.28065
Luxembourg	61.70-61.80	37.80-37.90
Malaysia	4.0875-4.0950	2.5045-2.5060
Mexico	2113.10-2135.65	1296.00-1309.00
N. Zealand	2.7640-2.7690	1.6870-1.6890
Saudi Ar.	6.1330-6.1385	3.7500-3.7510
Singapore	3.4570-3.4630	2.1185-2.1195
S. Af. (Cm)	3.2985-3.3110	2.0180-2.0220
S. Af. (Fn)	5.4555-5.6435	3.3335-3.4485
Taiwan	51.10-51.35	31.05-31.15
U.A.E.	6.0065-6.0115	3.6725-3.6735

*Selling rate

POUND SPOT—FORWARD AGAINST THE POUND

June 15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 37.90-38.00. Six-month forward dollar 1.14-1.09 c pm. 12-month 1.80-1.70c pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

June 15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 37.90-38.00.

EURO-CURRENCY INTEREST RATES

June 15	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long-term Eurodollars: two years 8¾-8⅝ per cent; three years 8⅞-8¾ per cent; four years 8⅞-8⅞ per cent; five years 8⅞-8⅞ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

June 15	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.632	2.978	238.3	9.938	2.470	3.355	2153.	2.200	61.75
$	0.613	1.	1.825	146.0	6.090	1.513	2.056	1319.	1.348	37.85
DM	0.336	0.548	1.	79.35	3.338	0.830	1.127	722.9	0.739	20.74
YEN	4.233	6.908	12.60	1000.	42.06	10.46	14.20	9112	9.312	261.4
F Fr.	1.006	1.642	2.996	237.7	10.	2.486	3.376	2166.	2.214	62.14
S Fr.	0.405	0.661	1.205	95.65	4.023	1.	1.358	871.5	0.891	25.00
H Fl.	0.296	0.486	0.887	70.42	2.962	0.736	1.	641.6	0.656	18.41
Lira	0.465	0.758	1.383	109.8	4.617	1.148	1.559	1000.	1.022	28.69
C $	0.455	0.742	1.353	107.4	4.517	1.123	1.525	978.4	1.	28.07
B Fr.	1.619	2.643	4.822	382.6	16.09	4.000	5.433	3486.	3.563	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

FINANCIAL FUTURES

Pound depresses gilts

GILT PRICES were sharply weaker in the London International Financial Futures Exchange yesterday. A variety of factors ensured that a slightly weaker trend at the opening gathered momentum as the day progressed so that the September long gilt contract fell to 125-22 at the close down from an opening level of 127-08 and Friday's close of 127-14.

Expectations of sterling benefiting from overseas demand after Mrs Thatcher's larger than expected majority, failed to materialise and investors quickly became demoralised. Profit taking therefore gained the ascendency and with the Bank of England seen as being determined to defuse any attempt to push the pound higher, the weaker trend gathered pace.

Three-month sterling deposits opened slightly firmer but soon backed off as cash rates edged up a sixteenth of a point. The September contract retreated from a higher opening of 91.52 to finish at 91.28 down from 91.49 on Friday.

US Treasury bonds finished on a firmer note. The dollar's better performance after Friday's mildly encouraging trade and inflation figures encouraged demand so that the bond price for September delivery rose from an opening level of 92-18 to close at 92-23, up from 91-23 on Friday.

Three-month Euro-dollar prices were less active and after opening at 92.61, the September price traded in a seven tick range before closing at 92.62 compared with 92.48 on Friday.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Sept	Calls—Last Dec	Puts—Last Sept	Puts—Last Dec
118	7.60	8.315	0.16	0.59
120	6.21	6.61	0.41	1.25
122	4.47	5.38	1.03	2.02
124	3.24	4.25	1.44	2.53
126	2.19	3.24	2.39	3.52
128	1.25	2.33	3.45	4.61
130	0.63	1.54	5.19	6.18
132	0.34	1.20	6.54	7.48

Estimated volume total, Calls 5,474 Puts 2,998
Previous day's open int: Calls 26,153 Puts 14,684

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Sept	Calls—Last Dec	Puts—Last Sept	Puts—Last Dec
80	12.48	11.63	0.02	0.13
82	10.51	10.10	0.05	0.24
84	8.57	8.28	0.11	0.42
86	7.06	6.55	0.24	1.05
88	5.29	5.28	0.47	1.42
90	3.56	4.13	1.10	2.27
92	2.33	3.10	1.51	3.24
94	1.31	2.20	2.49	4.34

Estimated volume total, Calls 989 Puts 65
Previous day's open int: Calls 1254 Puts 622

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last June	Calls—Last July	Puts—Last June	Puts—Last July
21000	22.21	27.41	0.01	0.21
21250	19.72	25.02	0.02	0.32
21500	17.25	22.68	0.05	0.48
21750	14.82	20.40	0.12	0.70
22000	12.46	18.20	0.26	1.00
22250	10.21	16.10	0.52	1.40
22500	8.12	14.10	0.91	1.90
22750	6.23	12.23	1.53	2.53

Estimated volume total, Calls 35 Puts 20
Previous day's open int: Calls 421 Puts 736

LIFFE £/$ OPTIONS
£25,000 (cents per £1)

Strike Price	Calls—Last Jul.	Aug.	Sep.	Dec.	Puts—Last Jul.	Aug.	Sep.	Dec.
1.45	—	—	17.95	17.95	—	[illegible]	[illegible]	[illegible]
1.50	12.95	12.95	12.95	13.13	0.01	[illegible]	[illegible]	[illegible]
1.55	7.95	8.089	8.12	9.41	0.14	[illegible]	[illegible]	[illegible]
1.60	3.70	4.39	4.59	6.36	0.96	[illegible]	[illegible]	[illegible]
1.65	1.13	1.96	2.16	4.03	3.39	[illegible]	[illegible]	[illegible]
1.70	0.20	0.70	0.84	2.40	7.46	[illegible]	[illegible]	[illegible]
1.75	0.02	0.19	0.27	1.34	12.28	[illegible]	[illegible]	[illegible]

Estimated volume total, Calls 20 Puts 90
Previous day's open int, Calls 680 Puts 1885

PHILADELPHIA SE £/$ OPTIONS
£12,500 (cents per £1)

Strike Price	Calls—Last July	Aug.	Sept.	Dec.	Puts—Last July	Aug.	Sept.	Dec.
1.600	—	4.60	5.00	16.10	0.75	[illegible]	[illegible]	[illegible]
1.625	2.40	3.20	3.70	[illegible]	1.60	[illegible]	[illegible]	[illegible]

SWISS FRANC (IMM)
SFr 125,000 $ per SFr

	Latest	High	Low	Prev.
June	0.6635	0.6646	0.6611	0.6671
Sep.	0.6682	0.6699	0.6667	0.6729
Dec.	0.6744	0.6760	0.6725	0.6739
Mar.	—	—	—	0.6853

STANDARD & POORS 500 INDEX
$500 times index

	Latest	High	Low	Prev.
June	302.75	303.20	300.30	302.00
Sept.	304.65	305.20	304.50	303.90
Dec.	306.70	307.40	306.70	306.10
Mar.	308.70	309.50	—	308.30

MONEY MARKETS

Rates edge higher on weaker pound

INTEREST RATES were a little firmer where changed in the London money market yesterday. This reflected a fairly sharp decline in the value of sterling. A lack of follow through demand after the election and a revival in the dollar's fortunes ensured a weaker pound.

Three-month interbank money was quoted at 8 11/32 per cent from 8 11/16 per cent on Friday. Despite this a few traders were expecting a cut in UK clearing bank base rates later this summer although some financial analysts admitted that the longer term outlook for sterling remained less than bright.

UK clearing bank base lending rate 9 per cent since May 8

In addition the apparent choice between a higher pound or lower interest rates may not have to be taken just yet, given yesterday's firmer dollar.

Overnight interbank money opened at 9-9⅛ per cent, and moved up to 9½ per cent at lunch before slipping away to 4 per cent. However late balances were bid up to 7-8 per cent.

The Bank of England forecast a shortage of around £450m with factors affecting the market including the repayment of late assistance and bills maturing in offical hands together with a take up of Treasury bills draining £982m. These were partly offset by Exchequer transactions which added £115m and a fall in the note circulation of £380m. In addition banks brought forward balances £20m above target.

The forecast was revised to a shortage of around £600m and the Bank gave assistance in the morning of £69m through outright purchases of £17m of eligible bank bills in band 1 at 8⅞ per cent and £52m in band 2 also at 8⅞ per cent.

Further help was given in the afternoon of £583m through outright purchases of eligible bank bills in band 1 at 8⅞ per cent. Total help came to £652m.

In Paris the Bank of France left its money market intervention rate unchanged at 7¾ per cent when it bought first category paper to inject funds into the market.

In New York the US Federal Reserve Bank was expected to enter the money market and add reserves through customer repurchase agreements, corporate tax payments and a high level of deposits.

FT LONDON INTERBANK FIXING

(11.00 a.m. June 15) 3 months U.S. dollars | 6 months U.S. dollars

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

LONDON MONEY RATES

FT-Actuaries World Indices

A 59-page booklet giving details of the index coverage and selection process, together with technical appendices, can be obtained free of charge by sending a (48p) stamped, addressed A4-size envelope to:

Miss Lorraine Spong
Financial Times
Publicity Department
Bracken House
10 Cannon Street
London EC4P 4BY

£ WORLD VALUE OF THE POUND

The table below gives the latest available rate of exchange for the pound against various currencies on June 15, 1987. In some cases rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

Abbreviations: (A) approximate rate, no direct quotation available; (F) free rate; (P) based on U.S. dollar parities and going sterling-dollar rates; (T) tourist rate; (Bas) basic rate; (bg) buying rate; (Bk) bankers' rate; (cm) commercial rate; (ch) convertible rate; (fn) financial rate; (exC) exchange certificate rate; (nc) non commercial rate; (nom) nominal; (o) official rate; (sg) selling rate; (c) controlled rate.

COUNTRY	CURRENCY	VALUE OF £ STERLING
Afghanistan	Afghani	99.20
Albania	Lek	9.9368
Algeria	Dinar	7.6448
Andorra	French Franc	9.9375
	Spanish Peseta	207.40
Angola	Kwanza	49.347
Antigua	E. Caribbean $	4.42
Argentina	Austral	2.7353
Germany (East)	Ostmark	2.9775
Germany (West)	Deutsche Mark	2.9775
Ghana	Cedi	261.32
Gibraltar	Gibraltar £	1.0
Greece	Drachma	223.425
Greenland	Danish Krone	11.2150
Grenada	E. Caribbean $	4.42
Guadaloupe	Local Franc	9.9375
Guam	U.S. $	1.6320
Oman Sultanate of	Rial Omani	0.6315
Pakistan	Pakistan Rupee	28.50
Panama	Balboa	1.6320
Papua New Guinea	Kina	1.4665
Paraguay	Guarani	(521.76 (10) / 1202.50
Peru	Inti	(exc(o)25.91 / (F) 39.13 / (Fn) 32.40
Philippines	Philippine Peso	33.00
Zambia	Kwacha	12.85 (17)
Zimbabwe	Zimbabwe $	2.71

‡Rate is the transfer market (controlled). ‡‡ Now one official rate. (1) Essential goods. (2) Preferential rate for priority imports such as foodstuffs. (4) Preferential rate for Public Sector Debt and Essential Imports. (5) Preferential rate. (6) Free rate for luxury imports, remittances of money abroad and foreign travel. (7) Parallel rate. (9) Banknote rate. (10) Rate for exports. (14) Nearly all business transactions. (15) Nigeria, Auction price for dollar N/A. (16) Bolivia, New Currency introduced (Boliviano, worth 1m Pesos) Jan 1 1987. (17) Zambia Kwacha, set at 8 Kwacha to the Dollar, May 5 1987.

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS. Figures in parentheses show number of stocks per grouping	MONDAY JUNE 15 1987 US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	FRIDAY JUNE 12 1987 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1987 High	1987 Low	Year ago (approx)
Australia (94)	136.93	-0.6	124.40	127.04	3.08	137.74	123.62	127.66	140.95	99.92	89.11
Austria (16)	86.28	-1.4	78.38	81.76	2.32	87.49	78.52	82.05	101.62	85.94	84.89
Belgium (47)	116.22	-0.8	105.58	108.77	4.42	117.17	105.16	108.65	123.62	96.19	77.07
Canada (127)	126.79	-0.3	115.18	123.12	2.39	127.15	114.11	123.33	136.17	100.00	98.96
Denmark (39)	119.98	-0.4	108.99	112.14	2.48	120.45	108.10	111.40	124.10	98.18	97.83
France (122)	109.92	+0.7	99.85	105.00	2.66	109.11	97.92	103.51	121.82	98.39	80.86
West Germany (90)	91.95	+0.8	83.53	87.22	2.15	91.25	81.89	85.94	100.33	84.00	87.42
Hong Kong (45)	119.08	+0.0	108.18	119.40	2.88	119.12	106.90	119.40	119.12	96.89	70.32
Ireland (14)	128.10	+0.0	116.37	123.04	3.67	128.03	114.90	121.98	131.86	99.50	84.33
Italy (76)	99.06	-0.4	89.99	97.58	1.86	99.45	89.25	97.44	112.11	94.76	86.36
Japan (458)	157.33	-1.3	142.93	143.96	0.46	159.45	143.10	144.94	161.28	100.00	79.13
Malaysia (36)	166.64	-1.6	151.38	160.78	2.37	169.27	151.91	162.24	172.55	98.24	80.13
Mexico (14)	242.41	+2.5	220.22	345.21	0.64	236.49	212.23	336.26	242.41	99.72	49.65
Netherland (38)	117.83	+0.2	107.04	110.54	4.03	117.55	105.50	109.40	120.14	99.65	90.35
New Zealand (27)	98.94	+0.0	89.88	88.68	3.03	98.91	88.77	88.65	100.59	83.93	66.94
Norway (24)	138.42	+0.0	125.75	126.59	2.01	138.41	124.21	125.35	140.05	100.00	99.80
Singapore (27)	140.37	-1.1	127.52	137.07	1.78	141.87	127.32	138.13	144.47	99.29	72.72
South Africa (61)	159.74	-3.5	145.12	118.40	3.52	165.48	148.51	120.59	186.74	100.00	72.57
Spain (43)	114.72	+0.0	104.22	110.42	3.70	114.73	102.97	109.30	121.31	100.00	81.22
Sweden (33)	114.29	+0.0	103.82	107.39	2.17	114.30	102.58	106.48	124.68	90.85	88.92
Switzerland (51)	92.51	+0.5	84.04	86.78	1.99	92.01	82.57	85.56	104.06	92.01	82.49
United Kingdom (335)	150.27	-0.3	136.51	136.51	3.14	150.68	135.23	135.23	150.68	99.65	98.00
USA (593)	124.16	+0.5	112.79	124.16	2.92	123.52	110.85	123.52	124.16	100.00	102.79
Europe (928)	120.67	+0.0	109.63	112.53	2.87	120.64	108.27	111.41	121.61	99.78	90.22
Pacific Basin (687)	155.09	-1.3	140.89	142.33	0.62	157.09	140.98	143.27	158.64	100.00	79.16
Euro-Pacific (1615)	141.36	-0.8	128.42	130.45	1.39	142.55	127.93	130.57	143.34	100.00	83.53
North America (720)	124.30	+0.5	112.92	124.12	2.89	123.71	111.02	123.53	124.60	100.00	102.59
World Ex. US (1817)	141.11	-0.8	128.19	130.16	1.44	142.31	127.71	130.16	143.09	100.00	83.93
World Ex. UK (2075)	132.92	-0.4	120.75	127.26	1.84	133.41	119.73	127.24	133.55	100.00	90.69
World Ex. So. Af. (2349)	134.30	-0.3	122.01	128.17	1.96	134.76	120.94	128.00	134.76	100.00	91.43
World Ex. Japan (1952)	123.61	+0.2	112.29	120.19	2.89	123.31	110.67	119.48	123.61	100.00	97.14
The World Index (2410)	134.47	-0.4	122.16	128.12	1.97	134.95	121.11	127.97	134.95	100.00	91.31

Base values, Dec 31, 1986 = 100

EUROPEAN OPTIONS EXCHANGE

Series		Vol.	Last	Vol.	Last	Vol.	Last	Stock
		Aug 87		Nov 87		Feb 88		
GOLD C	$440	38	26.50	—	—	—	—	$449.50
GOLD C	$460	167	14.50	29	27.50	—	—	"
GOLD C	$480	144	7	366	18.50A	—	—	"
GOLD C	$500	50	4.10	91	13	23	20	"
GOLD P	$440	23	9	123	16.50	—	—	
		Jun 87		Sep 87		Dec 87		
SILVER C	$700	16	60A	—	—	10	145	$754
SILVER C	$1000	—	—	—	—	26	45	"
SILVER P	$800	51	50	—	—	—	—	"
		Jun 87		Jul 87		Aug 87		
$/Fl C	Fl.195	14	10.20	—	—	4	10.50	Fl.205.56
$/Fl C	Fl.200	62	5.20	110	5.80	1	6.80	"
$/Fl C	Fl.205	145	1	39	2.70	51	3.60	"
$/Fl C	Fl.210	60	0.15	123	1	125	2	"
$/Fl P	Fl.200	820	0.35	5	1	15	2.40	"
$/Fl P	Fl.205	1053	0.40	33	3.20	—	—	
		Sep 87		Dec 87		Mar 88		
$/Fl C	Fl.195	—	—	—	—	2	11.90	Fl.205.56
$/Fl C	Fl.200	1	7	10	8	12	9.50	"
$/Fl C	Fl.205	22	4.10B	14	6.10	14	6.90	"
$/Fl C	Fl.210	113	2.50	—	—	1	5	"
$/Fl C	Fl.215	13	1	—	—	6	3.80	"
$/Fl P	Fl.190	—	—	16	2.10	10	3.50	"
$/Fl P	Fl.195	1	1.80	210	3	—	—	"
$/Fl P	Fl.200	21	3	—	—	145	6.80	"
$/Fl P	Fl.205	10	5.40	2	7.50A	—	—	"
$/Fl P	Fl.235	1	29.50	42	31	—	—	
		July 87		Oct 87		Jan 88		
ABN C	Fl.520	89	0.50	48	3.50	4	90	Fl457.50
ABN P	Fl.460	172	8.60	200	20	36	26	"
AEGON C	Fl.90	30	1	1	3.20	3	5.20	Fl86.20
AEGON P	Fl.85	12	1.50	105	3.40	—	—	"
AHOLD P	Fl.90	20	1	5	2.20	—	—	Fl92.50
AHOLD C	Fl.90.90	16	2.30	—	—	—	—	"
AHOLD P	Fl.95.50	25	3.50	—	—	—	—	"
AKZO C	Fl.140	1043	2.70	365	7	69	9.90	Fl.136.90
AMEV C	Fl.65	22	0.50	25	1.80	—	—	Fl.60.80
AMEV P	Fl.65	12	4.50	—	—	—	—	"
AMRO C	Fl.80	152	0.40	34	1.10B	—	—	Fl.71.20
AMRO P	Fl.70	35	1.40	102	2.90	26	3.40	"
ELSEVIER C	Fl.50	370	1.30	322	3	25	4	Fl.49.70
ELSEVIER P	Fl.50	136	1.80	22	3.50	6	3.50	"
GIST-BROC C	Fl.45	994	1	264	2.50	63	3.80	Fl.43.10
GIST-BROC P	Fl.40	27	0.50	—	—	2	2	"
HEINEKEN C	Fl.170	21	3.90	51	7.50	7	10	Fl.168
HEINEKEN P	Fl.170	73	4	52	7.50	—	—	"
HOOGOVENS C	Fl.45	37	0.40	285	1.70	7	3.70	Fl.41.80
HOOGOVENS P	Fl.40	45	1	3	2.50	13	3	"
KLM C	Fl.50	832	2.50	801	3.70	246	4.50	Fl.50.80
KLM P	Fl.45	55	0.40	502	1.40	31	1.70	"
NED. LLOYD C	Fl.150	25	0.70	6	2.20	3	4	Fl.133
NED. LLOYD P	Fl.130	73	2	32	5	11	7.20A	"
NAT. NED. C	Fl.70	128	0.80	297	2.80	105	4	Fl.66.50
NAT. NED. P	Fl.65	65	0.90	82	2.40	47	3	"
PHILIPS C	Fl.50	928	0.80	197	2.50	235	3.50	Fl.48.10
PHILIPS P	Fl.50	144	2.60	307	3.40	85	4.10	"
ROYAL DUTCH C	Fl.260	963	8	300	12	17	15.80	Fl.264.50
ROYAL DUTCH P	Fl.270	267	7.10	22	12.50	8	14	"
ROBECO C	Fl.105	47	1.40	8	2.40B	20	4.20	Fl.105.20
UNILEVER C	Fl.680	897	26	219	38.70B	12	51	Fl.692.30
UNILEVER P	Fl.680	224	8.10	83	17	100	24	"

TOTAL VOLUME IN CONTRACTS: 4,357

A=Ask B=Bid C=Call P=Put

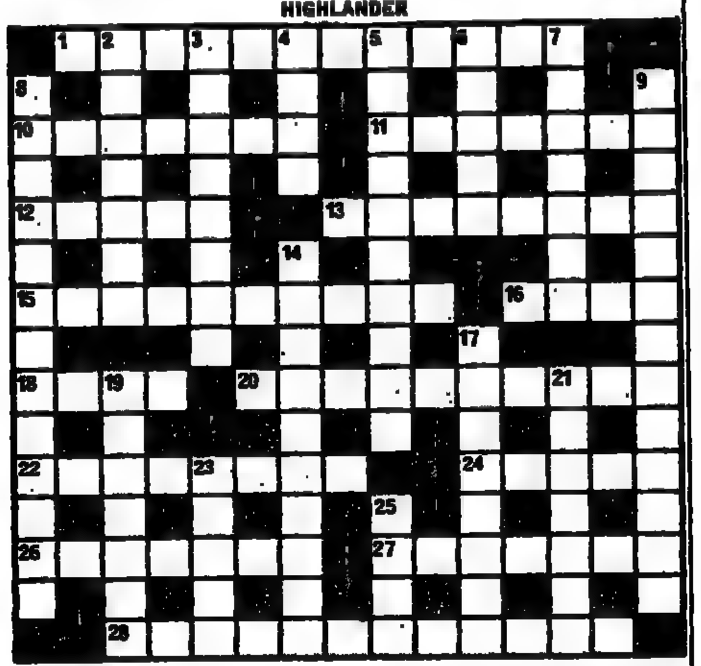
BASE LENDING RATES

	%		%		%
ABN Bank	9	● Charterhouse Bank	9	Nat Bk. of Kuwait	9
Adam & Company	9	Citibank NA	9	NatWestminster	9
Allied Arab Bk Ltd	9	City Merchants Bank	9	Northern Bank Ltd	9
Allied Dunbar & Co	9	Clydesdale Bank	9	Norwich Gen. Trust	9
Allied Irish Bank	9	Comm. Bk. N. East	9	PK Finans. Intl (UK)	10
American Exp. Bk	9	Consolidated Cred	9	Provincial Trust Ltd	10
Amro Bank	9	Co-operative Bank	*9	R. Raphael & Sons	9
Henry Ansbacher	9	Cyprus Popular Bk	9	Roxburghe G'rantee	9½
ANZ Banking Group	9	Duncan Lawrie	9	Royal Bk of Scotland	9
Associates Cap Corp	9	Equat'r'l Tst.G'p plc	9	Royal Trust Bank	9
Authority & Co Ltd	9	Exeter Trust Ltd	9½	Smith & Williamson Secs	9
Banco de Bilbao	9	Financial & Gen. Sec	9	Standard Chartered	9
Bank Hapoalim	9	First Nat. Fin. Corp	10	Trustee Savings Bank	9
Bank Leumi (UK)	9	First Nat. Sec. Ltd	10	UDT Mortgage Exp	¶11
Bank Credit & Comm	9	● Robert Fleming & Co	9	United Bk of Kuwait	9
Bank of Cyprus	9	Robert Fraser & Ptrs	10	United Mizrahi Bank	9
Bank of Ireland	9	Girobank	9	Unity Trust PLC	9
Bank of India	9	Grindlays Bank	‡9	Westpac Bank Corp	9
Bank of Scotland	9	● Guinness Mahon	9	Whiteaway Laidlaw	9½
Banque Belge Ltd	9	HFC Trust & Savings	9	Yorkshire Bank	9
Barclays Bank	9	● Hambros Bank	9		
Benchmark Tst Ltd	9	Heritable & Gen. Tst	9		
Beneficial Trust Ltd	10	● Hill Samuel	§9		
Berliner Bank AG	9	C. Hoare & Co	9		
Brit Bk of Mid East	9	Hongkong & Shangh	9		
● Brown Shipley	9	Lloyds Bank	9		
Business Mtge Tst	9	Meghraj & Sons Ltd	9		
CL Bank Nederland	9	Midland Bank	9		
Canada Permanent	9	● Morgan Grenfell	9		
Cayzer Ltd	9	C Mnt Credit Corp. Ltd	9		

● Members of the Accepting Houses Committee. * 7-day deposits 4%. Sarewise 6.66%. Top Tier—£2,500+ at 3 months' notice 7.97%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 4½% gross. ¶ Mortgage base rate. § Demand deposit 3.99%. Mortgage 11.25%.

FT CROSSWORD PUZZLE No 6,353

HIGHLANDER



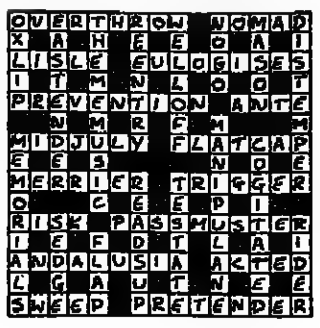
ACROSS

1 The Windmill used to have one constant drain on resources (4-4, 4)
10 Arthur showed up by accident here (7)
11 Victoria and Albert award for Rolling Stone (7)
12 Part of the following month's payment is due (5)
13 ¾in in newspaper reports of Wales perhaps (8)
15 Accept less variety performance (10)
16 Unstable mount secured by rounded stake (4)
18 Hearing sounds as spoken (4)
20 Drawback with vegetables—replacing lawn (10)
22 Sleeping draught—or protection against it? (8)
24 Heat Sunday joint in pan (5)
26 Queen Olivia cooked this dish (7)
27 Saw round trip by boat as occasion for drinking (7)
28 Dunstan gets involved and secures the details (4, 3, 5)

DOWN

2 Against current rage for something bloodthirsty (7)
3 Put down as an example in report (8)
4 Mine has hard core (4)
5 Find the land of perpetual youth not once, but twice (5-5)
6 Means it can be played by ear? (5)
7 Split payment? It's about time and will provoke a reaction (7)
8 Overland the line is led by a disagreeable foreign gentleman (6, 7)
9 Stopped at an exhibitor's display yet? (2, 1, 10)
14 Mark Antony's tongue had a disease (10)
17 Peer's SOS — brew some coffee (8)
19 Gave in indiscriminately to first Norman or Plantagenet (7)
21 First person to be firm with a social worker (7)
23 Fish associated with old interfering woman (5)
25 Drops on the grass — a setback, fearful (4)

Solution to Puzzle No 6,352



FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

Mercury Fund Managers Ltd (c)
33 King William St, EC4R 9AS 01-280 2060

American Growth	107.7	113.9	+1.4	1.67
(Accum Units)	112.9	119.8	+1.5	1.67
British Blue Chip Fund	51.8	54.8	+0.6	2.28
(Accum Units)	51.8	54.8	+0.6	2.28
American Sm Cos Fd	50.8	53.7	+0.8	0.45
(Accum Units)	50.8	53.7	+0.8	0.45
American Income	50.9	53.8	+0.2	4.35
(Accum Units)	55.5	58.7	+0.3	4.35
European Growth	135.8	143.6	+0.6	0.63
(Accum Units)	140.5	148.6	+0.6	0.63
European Income	78.0	82.5xd	-0.7	3.61
(Accum Units)	81.8	86.5xd	+1.0	3.61
General	364.0	385.1	+6.8	2.01
(Accum Units)	604.6	639.7	+11.3	2.01
Gilt	90.8	91.2xd	-0.1	7.12
(Accum Units)	108.0	108.5xd	-0.1	7.12
Global Fund	49.5	52.3		0.69
(Accum Units)	49.5	52.3		0.69
High Income Fund	48.3	51.1	-0.5	8.81
(Accum Units)	48.6	51.5	-0.5	8.81
High Income Fund	51.2	54.1	+0.7	4.85
(Accum Units)	51.9	54.0	+0.7	4.85
Income	117.0	123.8xd	+2.0	3.50
(Accum Units)	134.1	141.9xd	+2.2	3.50
International	295.4	312.8xd	-0.9	1.10
(Accum Units)	369.9	391.4xd	+0.8	1.10
Japan	231.3	244.5	-4.8	0.52
(Accum Units)	237.2	251.0	-4.9	0.52
Pacific Fd	52.2	55.2	+0.4	0.10
(Accum Units)	52.2	55.3	+0.4	0.10
Recovery	295.1	312.2xd	+4.9	2.00
(Accum Units)	320.9	339.5xd	+5.4	2.00
UK Smaller Co's Fd	50.3	53.2	+0.5	1.88
(Accum Units)	50.3	53.2	+0.5	1.88
Exempt May 27	345.2	354.5	+1.1	2.32
(Accum Units)	541.5	555.3	+1.7	2.32

Metropolitan Unit Trust Mngrs Ltd
3 Darkes Lane, Potters Bar EN6 1AJ 0707 45184

UK Income Fund	59.6	63.3	+0.4	4.74
Accum Units	59.6	63.3	+0.4	4.74
UK Growth Fund Acc	62.1	66.0	+0.1	1.52
Global Income Fund	49.9	53.0	+0.4	3.77
Accum Units	49.9	53.0	+0.4	3.77
Global Growth Fund	47.0	50.0		0.50

Midland Bank Group UT Mngrs. Ltd

Prudential Unit Trust Mngrs Ltd (a) (b) (c)
51-59 Ilford Hill, Ilford Essex IG1 2DL 01-478 3377
Holborn Linkline 0800 010345

Holborn Comm Trt	75.3	79.6	+0.9	0.38
Holborn Equity Income	67.5	71.4xd	+1.2	0.30
Holborn Equity Trt	570.4	603.5	+9.3	0.204
Holborn European Trt	110.5	110.9	+0.5	0.71
Holborn Gilt Trt	217.3	226.3	+0.7	2.18
Holborn High Inc Trt	84.2	88.0xd	+0.7	4.90
Holborn Intl Gth Trt	117.1	123.9	-0.8	0.70
Holborn Income Trt	137.7	146.7	+3.1	0.04
Holborn N Amer Trt	89.3	94.4xd	+1.4	0.51
Holborn Sm Co. Trt	73.6	77.8xd	+1.0	1.49
Holborn Spec Sits Trt	96.9	102.9	-1.9	1.43
Holborn UK Growth Trt	115.5	122.3	+2.3	1.53

Quilter Management Co Ltd
31-45 Gresham Street, London EC2 01-600 4177

Quadrant Gen. Fd	635.2	672.2		1.63
Quadrant Income	325.4	344.4		4.16
Quadrant Intl Fund	430.7	456.8	+2.3	1.10
Quadrant Spec. Sits	407.6	431.4		1.52

Reliance Unit Mgrs. Ltd
Reliance House, Tunbridge Wells, Kent 0892 510033

Bridge Life	237.7	252.7	+4.2	2.27
Reliance Unit Trt (Inc)	159.0	169.1	+3.2	1.91
Reliance Ut Trt (Acc)	214.0	227.6	+4.3	1.91

Rensburg Fund Managers
Silkhouse Ct, Tithebarn St., Liverpool 051-227 2030

Imperial. Growth Trust	49.5	52.1	+0.6	1.5

N.M. Rothschild Fund Mgmt
St Swithin's Lane, London EC4 01-634 2981/4

NC America (Inc)	314.8	334.8	+5.5	0.83
NC America (Acc)	343.7	365.4	+6.0	0.83
NC Inc Fd	122.7	130.5xd	+2.3	2.89
NC Japan Fd	219.1	233.0	+0.4	2.95
NC Major UK Cos Fd	70.8	75.3xd	+1.1	1.57
NC Smllr Australasian	84.4	89.7	+1.1	0.49
NC Smllr Canadian CoFd	47.7	50.7	+0.1	1.00
NC Smaller Cos	222.9	237.1	+2.4	0.95
NC Smaller European	189.9	202.0	+0.1	0.46
NC Prop.*	155.3	159.5		

*Unauthorised Unit Trusts

INSURANCES

FT UNIT TRUST INFORMATION SERVICE

Manufacturers Life Insurance—Contd.

Pension Fund Prices

[illegible]	322.5		
Do. Accum	503.4		
Property Inl.	240.8		
Do. Accum	293.6		
Equity Inl.	412.2	—	—
Do. Accum	501.8		—
Gilt Edged Inl.	240.6	—	
Do. Accum	293.4	—	—
Guaranteed Inl.	157.2	—	—
Do. Accum.	191.8	—	—
International Inl.	515.1	—	—
Do. Accum	627.6	—	—
Index Lk. Gilt Inl.	140.9	—	—
Do. Accum	171.7	—	—

Merchant Investors Assurance

Leon House, 233 High St, Croydon 01-686 9171

Property	298.8	+0.0	—
Property Pens.	392.9	+0.1	—
Equity	188.5	+2.2	—
Equity Pens.	861.4	+15.3	—
Money Market	322.2	+1.8	—
Money Mkt. Pens.	575.1	+3.5	—
Deposit	235.5	+0.1	—
Deposit Pens.	373.7	+0.1	—
Managed	285.0	+2.4	—
Managed Pens.	548.6	+6.7	—
Intl. Equity	335.0	+1.8	—
Do. Pens.	536.0	+4.4	—
Intl. Managed	307.9	+2.1	—
Do. Pens.	454.8	+4.6	—
North American	127.0	+1.4	—
Do. Pens.	144.9	+2.4	—
Far East	297.4	+0.4	—
Do. Pens.	430.9	+0.5	—
Intnl. Currency	174.8	+0.0	—
Do. Pens.	228.8	+0.1	—
Index Linked	129.9	-1.9	—
S & C Managed Fd	141.3	+0.2	—
S & C Pens Mngd Fd	114.8	+0.2	—
Tradition Life Funds			
Per Worldwide Rec.	157.1	+0.0	—
Per Far East Growth	191.9	+2.5	—
Per Intl Growth	149.7	+0.2	—
Per Income	168.3	+1.7	—
Per Emerging Co's	154.5	-0.1	—
Per American Growth	139.8	+0.1	—
Per European Growth	119.9	+0.2	—

Norwich Union Asset Management Ltd

PO Box 124, Norwich NR1 1JS 0603 683986

NUAM Funds

Managed Fund	56.9	54.9	+0.5	—
Stock Market Mngd Fund	58.1	61.2		—
Equity Fund	63.8	67.2	+0.8	—
International Fund	53.3	56.3	+0.6	
European Fund	54.6	57.7	+0.6	—
North American Fund	48.9	51.5	+1.3	—
Pacific Fund	66.1	69.6	+0.1	—
Property Fund	50.5	53.2		—
Fixed Interest Funds	51.8	54.6	-0.3	—
Index linked Sec Fund	46.3	48.8	+0.1	—
Deposit Fund	50.5	53.2		—
NUAM Retirement Plans				
Mixed Fund	60.3	63.5	+0.1	—
UK Ordinary Share	71.7	75.5		—
International Fund	54.8	57.7	+0.5	—
Property Fund	51.4	54.2		—
Fixed Interest Fund	53.5	56.4	+0.1	—
Index Linked Sec Fund	46.5	49.0	+0.1	—
Deposit Fund	52.3	55.1	+0.1	—
NUAM (MF)				
Managed Fund	776.5	817.4	+7.4	—
Equity Fund	1693.7	1782.9	—	—
Property Fund	314.1	330.5		—
Fixed Interest Fund	381.6	401.7	+8.2	—
Deposit Fund	206.1	217.0	—	—
International Fund	138.4	145.7		—
Index Linked Sec Fund	46.4	48.9	+0.1	—

Norwich Union Life Insurance Soc.

PO Box 4, Norwich NR1 3NG 0603 622200

Pensionvestor* & Unit-Linked Plus*

Fixed Interest Fund	261.4	281.4		—
Index-Linked Sec Fund	134.1	141.1		—
Ordinary Share Fund	512.7	539.6		—
International Fund	138.3	145.5		—
Property Fund	160.4	168.8		—
Deposit Fund	163.7	172.3		—
Mixed Fund	331.8	349.2		—
Norwich Units May 15		972.9		—

*Prices as at June 2.

Pearl Assurance (Unit Funds) Ltd

252 High Holborn, London WC1V 7EB 01-405 8441

Prop. Dist. (Growth)	142.5	150.0		—
Prop. Acc. (Growth)	223.1	234.9		—

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

1987 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
99	97	Treas 3pc 1987	99		3.01	7.94
101	100	Treas. 12pc 1987	101		11.85	8.39
99	97	Treas 7¾pc 1985-88‡‡	99		7.78	8.37
102	99	Exch 10½pc '88	101		10.35	8.46
101	98	Treas 9½pc Cv '88	101		9.64	8.45
96	93	Transport 3pc '78-88	96		3.10	6.32
101	98	Treas. 9½pc '88	101		9.40	8.61
106	101	Treas 11½pc 1989	104		11.03	8.70
102	97	Treas 9½pc Cnv 1989	101		9.38	8.72
94	89	Treas 3pc 1989	94		3.18	6.22
104	99	Treas 10½pc 1989	103		10.17	8.69
103	98	Exch 10pc 1989	102		9.76	8.73
105	100	Exch 11pc 1989	104		10.52	8.73
95	89	Treas 5pc 1986-89	95		8.25	7.19
108	100	Exch 10½pc Cv '89	106		9.66	7.39
111	105	Treas. 13pc 1990‡‡	109		11.86	8.76
106	100	Exch 11pc 1990‡‡	105		10.47	8.82
110	104	Exch. 12½pc 1990	108		11.49	8.17
91	84	Treas. 3pc 1990	90		3.29	6.43
100	93	Treas 8¼pc 1987-90‡‡	99		8.27	8.34
105	97	Treas. 10pc Cv 1990	103		9.67	8.79
89	81	Exch 2½pc 1990	88		2.81	6.21
110	103	Treas 11¾pc 1991	108		10.80	8.82
95	87	Funding 5¾pc '87-91‡‡	94		6.08	7.39
89	80	Treas. 3pc 1991	88		3.39	6.38
110	100	Treas 10pc Cv '91 ‡‡	108		9.23	7.57
109	101	Exch. 11pc 1991	107		10.22	8.84
116	108	Treas 12¾pc 1992‡‡	114		11.12	8.80
106	97	Treas 10pc 1992	104		9.56	8.78
49	46	Treas. 8pc 1992 ‡‡£50pd	47		8.15	8.47
108	99	Treas 10¼pc Cv 1992‡‡	106		9.64	8.78

Five to Fifteen Years

BRITISH FUNDS—Contd

Index-Linked

FOREIGN BONDS & RAILS

AMERICANS

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

Over Fifteen Years

Undated

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Continued

1987 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
30⅝	22⅞	Sara Lee $1	28¾xd	+1¼	$1.00	—	2.2
11⅜	8⅞	Saul (B. F.) $1	9½	+⅛	20c	—	1.3
26¼	19⅞	Southwestern Bell $1	23¾	+¼	h$2.32	—	6.0
17⅞	14¼	Staley Continental	16¾	+1	80c	—	2.9
44⅝	36⅛	Sun Co. Inc. $1	40⅞xd	+⅝	$3.00	—	4.6
37	28½	TRW Inc. $1¼	32¼xd	+⅝	h$1.60	—	3.0
31	25⅞	Tenneco $5	29[illegible]	+⅛	$3.04	—	6.3
187½	149½	Do. 10pcLn.Stk. 91-5	182½xd	.....	10%	—	5.6
26¼	17⅜	Texaco $6.25	23¼xd	+⅞	$3.00	—	7.7
58¼	47¼	Time Inc. $1	58¾	+1¼	$1.00	—	1.0
14½	11	Tracor $0.33	12¾	+¼	40c	—	1.9
24¼	18⅞	Transamerica $1	21[illegible]xd	+[illegible]	$1.76	—	4.9
11¼	922p	Transworld Corp $5	11	+¼	20c	—	1.1
42¼	29⅞	TRINOVA Corp.	41⅜	+¼	h$1.00	—	1.5
19⅝	15⅛	♥USX $1	19¼	+⅝	$1.20	—	3.8
18¼	15⅜	Union Carbide $1	18	+½	$1.50	—	5.1
35⅞	26⅞	Utd. Technologies	30⅛	+¼	$1.40	—	2.8
35⅝	27	US West‖	31⅝	+1	$3.28	—	6.4
25	17¼	Waste Management $1	24⅜	+⅜	—	—	—
£22¼	£20½	Whirlpool $1.0	£22	+⅛	—	—	—
33⅞	26	♥Woolworth $3½	33¼	+1⅞	$1.32	—	2.4

CANADIANS

1987 High	Low	Stock	Price £	+ or −	Div Gross	C'vr	Y'ld Gr's
20½p	10p	♥Abbot Energy Corp.	20½p	+½	—	—	—
25¼	10⅛	♥Amer. Barrick Res.	22½	.....	—	—	—
172p	52p	Armeno	96p	.....	—	—	—
19⅞	14⅝	Bk. Montreal ‖	15	+⅛	$2.00	—	6.1
10½	745p	Bk. Nova Scot.‖	791p	.....	72c	—	4.2
20⅝	18	BCE ‖	18⅞	+⅛	$2.40	—	5.9
960p	712p	♥Bow Valley‖	819p	+11	40c	—	2.2
19¼	12⅝	♥Brascan‖	15⅞	+⅛	88c	—	2.6
609p	277p	♥Breakwater Res.	410p	+7	—	—	—
11⅝	894p	Can.Imp. Bk. $2	950pxd	+8	$1.08	—	5.2
12	865p	Can. Pacific ‖	11	+⅛	48c	—	2.0
42½	37½	Do. 4pc Deb £100	41½xd	—	4%	—	9.6
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES—Continued

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
331½	305	PWS Holdings 10p	329	.....	†g9.25	2.9	3.9	12.3
400	316	Pearl Group 5p	395	–1	10.5	—	3.6	—
*£10⅞	804	Prudential	£10⅞	+⅛	29.0	—	3.7	—
530	438	Refuge 5p	525	+15	15.75	—	4.1	—
531	423	Royal	497	+29	h15.5	—	4.3	—
*344	274	Sedgwick Group 10p	290	+12	12.0	1.7	5.7	12.4
269	207	Steel Burrill J.10p	260	.....	9.0	2.0	4.7	14.5
505	403	Stewart Wr. 20p	415	+7	13.0	2.0	4.3	14.7
468	377	Stenge Hldgs 20p	448	+14	†h6.0	2.5	1.8	29.2
979	645	Sun Alliance	965	+20	23.5	—	3.3	—
£12⅛	929	Sun Life 5p	£11½	+⅛	28.5	—	3.3	—
£69¾	£39	♥Taisho M EDR	£56½	–1¼	Q10%	—	0.7	—
£21⅞	£14⅝	Torchmark $1.00	£16½	+⅛	Q60c	—	2.2	—
345	235	Trade Indemnity	343	+3	4.3	—	1.7	—
£34	£24⅞	Travelers $2.25	£27⅞	+1⅛	$2.28	—	5.0	—
£32½	£20⅞	USLIFE Corp. $1.0	£23⅞	+⅛	Q$1.20	3.2	9.1	5.1
725	555	♦Utd Friendly B 10p	721	+3	21.0	—	4.0	—
464	367½	Willis Faber 12½p	434	+9	10.75	1.9	3.4	21.8
89	41	♦Windsor Secs. 10p	77	–2	10.7	1.5	1.3	71.1

LEISURE

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
18½	11½	♦A & M Group 10p	16	–½	0.4	2.0	3.4	20.0
83½	69	A-R TV Pref. £1	83½	.....	5.95	48.1	11.7	—
242	189	Airtours 10p	242	+1	R5.4	2.5	3.1	17.6
*549	302	Anglia TV	456	+22	g11.25	3.3	3.4	12.7
184	108	♦Aspinall Hldgs. 10p	150	+1	6.0	1.2	5.5	20.6
103	63	♦Avesco 1p	98	.....	L0.5	6.6	0.7	25.1
48	40	♦BCE Hldgs 5p	47	–½	Sd1.0	3.0	2.9	15.6
195	132	Barr & W.A.T. 'A'	178	.....	8.0	1.4	6.2	14.5
207	165	Boosey & Hawkes	285	.....	—	—	—	—
85	45	♦Border T.V.	56	+1	†g2.5	3.2	6.1	14.1
*311	79½	Brent Walker 10p	311xr	+10	g8.5	2.2	4.4	15.0
*256	110	Campari Int. 20p	256	+21	3.0	5.1	1.6	13.1

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING—Continued

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Cont.

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OIL AND GAS—Continued

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Continued

Tins

Miscellaneous

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's
140	84	Anglo-Dominion	105	–7	—	—	—
90	21	♥Colby Res Corp.	56	.....	—	—	—
*295	127	Cons. Murch. 10c	260	.....	Q60c	4.4	7.2
*70½	37½	♥Ennex Int. Ir10p	57xr	–1	—	—	—
318	151	Greenwich Res	283	+8	—	—	—
£12⅞	963	Hemlo Gold Mines	£10⅛	–⅛	—	—	—
355	190	♥Highwood Res.	278	+9	—	—	—
£25⅞	£16⅞	Homestake Mining $1	£21⅞	–⅛	Q20c	—	0.6
442	150	♥McFinley Red Lake	341	+5	—	—	—
166	86	♥Musto Explorations	127	–5	—	—	—
100	37½	♥New Sabina Res C$1	69	–5	—	—	—
580	200	Northgate C$1	477	–5	—	—	—
237	104	Nor-Quest Resources	180	–6	—	—	—
£11⅛	698	RTZ	993	–19½	23.5	♦	3.2
£203¾	£113¾	Do. 9¾pcLn '95-2000	£204¾	–2	Q9¾%	15.5	4.7

THIRD MARKET

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
485	180	Abelscot Group 10p	465	.....	3.5	2.7	1.0	50.0
35	28	Aberdeen Am Pet 10p	33	+1	—	—	—	—
135	110	Allied Ins. Brokers	128	.....	13.5	2.5	4.0	14.3
15½	9	Ardmore Pet. 'A'	13	.....	—	—	—	—
77	45	Catalyst Comms. 5p	70	+4	—	—	—	—
200	168	Chelsea Artisans 5p	200	.....	—	—	—	26.8
98	47	Corton Beach 10p	91	+3	0.4	♦	0.6	♦
200	150	Crown Eyeglass 5p	195	+5	—	—	—	—
225	102	Edenspring Investment	225	.....	—	—	—	—
*62	18	Eglinton Oil Ir.5p	30	.....	—	—	—	—
41	17	Do. Warrants	19	.....	—	—	—	—
55	17	Publishing Hldgs.5p	55	+6	—	—	—	31.9
58	45½	Theme Holdings	50	–1	1.0	♦	2.7	♦
140	111	Unit Group	140♦	.....	R4.8	2.5	4.5	(10.8)

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ♦ Same interim; reduced final and/or reduced earnings indicated.
- ♦ Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ‡‡ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Stock	Price	+ or –	Stock	Price	+ or –
Albany Inv 20p	83	.....	Fin. 13% 97/02	£112	.....
Craig & Rose £1	£16¼	.....	Arnotts	333	.....
Finlay Pkg. 5p	92	+3	CPI Hldgs	57	.....
Holt (Jos) 25p	955	.....	Carrol Inds.	141	+1
Jeld Stm. £1	118	.....	Dublin Gas	18	.....
			Hall (R. & H.)	104	.....
IRISH			Heiton Hldgs.	32	.....
Fund 11¼% 1988	£100⅞	.....	Irish Ropes	160	.....
Nat. 9¾% 84/89	£98½	.....	Unidare	375	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	40	NEI	12
Amstrad	20	Nat West Bk	65
BAT	55	P & O Dfd	65
BOC Grp	45	Plessey	22
BSR	17	Polly Peck	28
BTR	30	Racal Elect	24
Babcock	19	RHM	30
Barclays	52	Rank Org Ord	70
Beecham	50	Reed Intnl	45
Blue Circle	50	STC	30
Boots	25	Sears	15
Bowaters	50	TI	34
Brit Aerospace	55	TSB	10
Brit. Telecom	32	Tesco	55
Burton Ord	38	Thorn EMI	70
Cadburys	22	Trust Houses	24
Charter Cons.	40	Turner Newall	28
Comm Union	30	Unilever	300
Courtaulds	45	Vickers	20
FNFC	30	Wellcome	42
Gen Accident	95	**Property**	
GEC	24	Brit Land	25
Glaxo	200	Land Securities	45
Grand Met	55	MEPC	42
GUS 'A'	175	Peachey	45
Guardian	90	**Oils**	
GKN	30	Brit Petroleum	32
Hanson Tst.	15	Britoil	32
Hawker Sidd	50	Burmah Oil	45
ICI	125	Charterhall	6
Jaguar	52	Premier	11
Ladbroke	40	Shell	110
Legal & Gen	32	Tricentrol	11
Lex Service	45	Ultramar	24
Lloyds Bank	50	**Mines**	
Lucas Inds	62	Cons Gold	95
Marks & Spencer	22	Lonrho	26
Midland Bk	55	Rio T Zinc	90
Morgan Grenfell	35		

A selection of Options traded is given on the London Stock Exchange Report Page.

LONDON STOCK EXCHANGE

Account Dealing Dates Option *First Dealings	Declarations	Last Dealings	Account Day
Jun 1	Jun 11	Jun 12	Jun 22
Jun 15	Jun 25	Jun 26	July 6
Jun 29	July 9	July 10	July 20

* New time dealings may take place from 9.00 am two business days earlier.

Easier sterling prompts fall in bonds but equities advance to new peak levels

The UK securities markets presented a more irregular pattern yesterday when weakness in the pound damped down the City's hopes for renewed foreign buying of British Government bonds and equities. Nervous selling by the bond traders brought a sharp setback in gilt-edged stocks, but equities retained their confidence, despite the absence of foreign interest, and moved up to new peaks. The FT-SE index climbed above 2300 for the first time as the new equity trading account opened.

The dip in sterling reduced the likelihood of an early cut in UK bank base rates, and quickly prompted profit-taking in gilts by the professional traders. Falls of more than 1½ points took prices back to well below election-eve levels.

But the pound's weakness did not mean a complete absence of foreign interest. Some Continental demand was reported, although the Japanese team stayed on the sidelines.

In equities, UK investors remained buoyant but the absence of the foreign buyers threw the weight of interest towards domestically-orientated issues. Privatisation issues continued active, with **British Gas** and **British Telecom** busy ahead of their respective trading statements. Profits news from **British Airports Authority** set the scene for the impending privatisation sale.

The FT-SE 100 index closed 18.1 up at 2307.6, a new closing peak, after an erratic session which saw an initial gain cut back before the market rebounded to the day's peak of 2310.6. The FT Ordinary gained 18.7 to 1786.6, also a new peak.

Financial issues again provided the strongest sector in the market, as investors took the view that further privatisation moves, especially of pension schemes, will further stimulate the securities sector. Bank stocks, with results due shortly, responded to favourable press comment on plans to write down their Third World loans.

The easier trend of sterling brought widespread gains among the major exporting stocks, where **Imperial Chemical Industries**, **Jaguar** and **BAT Industries** stood out firmly.

But consumer stocks also attracted buyers, despite the announcement of a sharp dip in UK retail sales last month. Among the food retailers, it was takeover speculation that fired investors' enthusiasm. Sharp gains in the conventional stores were featured once again by **GUS**.

London made only a half-hearted response to the early strength of Wall Street. **Shell** stood out, but **British Petroleum** closed quietly. Among the other international favourites, **Unilever** strengthened ahead of the share split due shortly. **Saatchi & Saatchi**, under a cloud since criticism of their handling of the Thatcher Government's election campaign, moved up on US buying after reports that the group plans to reshape its US operations—a move welcomed by the City.

The major clearing Banks moved higher having extended a cautious welcome to details of Brazil's economic package in which the country identified an external financing need of some £4.3bn for 1987. **Midland** and **Lloyds**, the most exposed British banks which are expected to increase provisions against Third World debts when their respective half-year results are published at the end of July, scored the smartest gains. Markets makers also considered that the sector as a whole was undervalued. Sustained demand boosted **Lloyds** 13 to 578p and **Midland** 20 to 628p. **NatWest** were up 13 at 703p in sympathy, but **Barclays**, having performed strongly on Friday, eased back to close a couple of pence off at 578p.

Merchant Banks made useful progress on the prospect of further lucrative business from takeover developments among major Indstrial stocks. **Hill Samuel** rose 11 to 474p and **Kleinwort Benson** gained 31 to 519p. **Brown Shipley**, however, shed 10 to 548p following the preliminary figures.

Demand for Composite Insurances revived strongly. Various reasons were cited for the sector's underperformance, but market makers reported a general upward correction in prices with yield considerations one of the main reasons for buyers returning. **Commercial Union** were favoured on this score and rose 10 to 348p. **Royals** were 29 higher at 497p.

Demand on hopes of increased pension business soon uncovered stock shortages among Life issues. **Prudential** moved up ⅜ to £10⅞, while **Legal and General** firmed 10 to 369p.

Unlike other consumer-orientated sectors, Breweries failed to show appreciable alteration from the pre-weekend levels. Dealers reported that substantial bull positions were slow to unwind with the upshot that **Bass** were unchanged at £10¼, while **Allied-Lyons** finished 2 off at 445p. Interest among regionals was also muted. **J. A. Devenish** put on 6 more to 263p ahead of today's half-timer.

Leading Buildings made a selectively firm showing. **George Wimpey** were in demand at 259p, up 10, while **AMEC**, 404p, and **Taylor Woodrow**, 464p, both currently favoured by BZW, displayed similar gains. **John Mowlem**, on the back of a generally firm Construction sector, advanced 26 to 474p in a market short of stock. Moving against the trend, **Costain** drifted off to close 5 cheaper at 588p. Elsewhere, **Y. J. Lovell** put on 11 to 262p awaiting today's half-timer, while **Anglia Secure Homes** advanced 30 to 495p in reply to newsletter comment. **Meyer International** featured the Timber sector, rising 10 to 429p ahead of today's preliminary figures. **Wiggins** picked up sharply on favourable comment to touch 300p prior to closing 7 higher on balance at 275p.

ICI attracted good support on currency influences and closed ¼ higher at £14½. Elsewhere in the Chemical sector, **Allied Colloids** rose 17½ to 304½p following reports of a broker's favourable circular. Bid speculation boosted **Hickson International** 14 to 720p and **Anchor Chemical** 19 to 405p. **Yorkshire** were in demand at 238p, up 14.

The old chestnut that a reduction in interest rates would be beneficial for consumer expenditure was given another run and gave a predictable lift to many high street retailers. Initial confusion over the provisional retail sales figures for May proved to be a minor hiccup. Second line counters were also in demand, albeit selectively. The continuation of last Friday's takeover speculation lifted **Bentalls**, the department store group, another 12 up at 167p. Newsletter comment aided **Blanchards**, 11 up at 158p, while speculative interest resumed in **Acsis Jewellery**, 51p, and **Helene of London**, 50p, up 4 apiece. **Alexon** advanced 20 to 368 in response to the double full-year figures; the pre-tax figure of £8.9m came in some £500,000 ahead of market estimates. Dealings in **ERA** was suspended at 151p pending an announcement, believed to be concerning a sizeable acquisition. Trading was also halted in **Gee-Rosen**, 5 higher on the session at 63p.

British Telecom were a relatively active market (some 9m shares were traded) ahead of Thursday's preliminary statement but settled 3 cheaper on the day at 324½p. Other leading Electrical issues were also inclined a shade easier. **BICC**, however, rose 10 to 368p on the proposed acquisition of Derby based housebuilder, David M. Adams Developments for £9.46m.

Among Engineers, **Ransome Sims** jumped 24 to 307p on news that the fast expanding group F. H. Tompkins has increased its stake in the company to 5.85 pr cent. **J. Saville Gordon** rose 3½ to 96p on the acquisition of a freehold investment property for just over £1½m. **IMI** were favoured at 254½p, up 9, while takeover hopes revived in **Manganese Bronze** which put on 25 to 245p and speculative demand left **S. W. Wood** 12 to the good at 105p.

Foods began the new Account in an encouraging fashion, although gains, which often extended into double-figures, were occasionally attributable to stock shortage. Retailers highlighted Mr Jimmy Gulliver's **Argyll Group**, which put on 8 to 495p; the group is scheduled to reveal full year figures on June 25 and brokers Greenwell Montagu expect pre-tax profits of around £82.5m. Favourable comment prompted revived takeover chatter in **Kwik Save**, finally 8 up at 355p, while option activity directed attention towards **Tesco**, 13 to the good at 599p.

ASDA-MFI hardened a penny to 185p as weekend comment stimulated revived hopes that the group is preparing to hive off the MFI side; speculation was also growing last night that a full bid for the entire group might be in the offing. Hanson Trust, almost inevitably, was mentioned as a likely suitor.

Manufacturers also closed around the session's best levels. **Tate and Lyle** touched 877p before settling 24 up on balance at 868p amid revived speculation that the disposal of its 15 per cent holding in S. & W. Berisford is imminent; **Berisford**, scheduled to announce interim results on Thursday, put on 7 to 356p. **Freshbake** improved 4 to 176p as BZW rated the shares as a "buy" in the wake of the better-than-anticipated full-year results. **Associated Fisheries**, buoyed by a Press mention and a recommendation from brokers Gilbert Elliott, spurted 46 to 246p. **John J. Lees**, the Scottish confectionery group, rose 67 more to 315p on further consideration of the disclosable stake held by **Northumbrian Fine Foods**.

Beecham traded on a quieter note (some 2.6m shares changed hands) but helped by a recommendation from Nomura Research Institute improved 8 further to 568p. Dr Banerji of Nomura points out that the current rating does not adequately reflect the potential of Beecham's new drugs, in particular the heart drug Eminase. He also expects the announcement of a stream of developments from Beecham which, along with a stronger performance from the Consumer Product Division, should correct the recent underperformance. Still reflecting last week's excellent annual results, **Pilkington** made further progress to close 22½ higher at 930p.

Reed International advanced 26 to 485p as the company announced the sale of its paint and do-it-yourself division to Williams Holdings for approximately £285m. **Williams Holdings** is financing the acquisition by an issue of 36,305,733 new Ordinary shares at 785p per share. The purchase is subject to shareholders' approval and dealings in Williams Holdings were temporarily suspended at 835p.

Rihardo advanced 22 to 178p amid a revival of bid hopes, while **Associated British Ports**, responding to an article on the company in the Financial Times, improved a similar amount to 607p. Revived take over speculation left **Bridon** 13 to the good at 230p, while acquisition news prompted a gain of 10 to 253p in **Task Force**. **Smith and Nephew**, the subject of a BZW buy recommendation, advanced 6½ to 181½p.

Marina Developments, last week's high-flyer following a consortium bid for the company, attracted fresh demand on asset injection hopes and rose 21 more to 403p. **Fairline Boats** gained 64 to 421p following a newsletter recommendation.

Motor sectors continued to provide a host of noteworthy features. **Jaguar** attracted renewed international demand and put on 11 more to 550p. Components continued to highlight **Lucas**, another 10 up at 672p amid persistent reorganisation talk, while demand was also evident for recent speculative favourite **Airflow Streamlines**, also 10 up at 143p. Press comment directed fresh attention to Distributors. **Evans Halshaw**, for example, hardened 11 to 152p.

Reflecting the current interest in Publishers, **A and C Black** moved ahead strongly with the aid of press mention to close 65 higher at 480p. **Pentos** gained 9 to 159p, while **Associated Book**, awaiting further developments, advanced 25 to 590p. **EMAP**, preliminary figures scheduled for today, advanced 18 to 218p.

Press comment highlighting the possibility of further bid activity within the sector coupled with hopes of lower interest rates prompted renewed demand for Property issues. **Land Securities** were outstanding at 553p, up 17, while **MEPC** moved up 12½ to 508pxd. **Hammerson A** rose 35 to 595p, while **Slough Estates**, 285½p, and **British Land**, 285p, both gained 5. Secondary issues also displayed numerous firm features. **Helical Bar**, boosted by newsletter comment, put on 18 to 265p, while **Mountview**, preliminary figures due tomorrow, rose 30 to 860p.

Courtaulds followed the trend in the leaders, rising 8 to 471p in a volume of 2m shares. Elsewhere in the Textile sector, **Sekers** were noteworthy for a gain of 15 at 191p, the rise partly reflecting traditional option demand. **Drummond** aslo stood out with a gain of 15 at 228p while **Kingsley and Forester** firmed 6 to 72p following the announcement of the acquisition of Bolton based Townsend Cycles Limited.

Energy stocks featured **British Gas** which firmed 4½ to 195½, after 196p, ahead of tomorrow's preliminary figures. **Shell** attracted further support at £13¾, up ¼.

The South African gold share sector was flat yesterday, beneath the pressures of a weakening bullion price in the face of a strong US dollar. **Vaal Reefs** and **Western Deep Levels** stood out with significant losses in dollar terms among the major producer stocks, but the picture was poor throughout the range. At 388.1, the FT Gold Shares index fell 21.2.

Traders commented that, while there were sellers from all the market sectors, the share price losses chiefly reflected the absence of buyers. Significantly, there was no response from the shares to an attempted, if eventually unsuccessful, rally in the gold price. Firmness in New York did not encompass the mining share sector.

FINANCIAL TIMES STOCK INDICES

	June 15	June 12	June 11	June 10	June 9	Year ago	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs	92.04	92.70	92.64	92.70	92.75	91.31	93.32 (8/5)	84.49 (6/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	99.12	98.79	98.84	98.42	98.31	96.84	99.12 (15/6)	90.23 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1786.6	1767.9	1740.8	1,752.2	1,761.3	1,318.6	1,786.6 (15/6)	1,320.2 (2/1)	1,786.6 (15/6/87)	49.4 (26/6/40)
Gold Mines	388.1	409.3	399.2	398.8	388.7	196.2	485.0 (14/4)	288.2 (19/2)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	3.20	3.24	3.28	3.25	3.23	4.15				
Earnings Yld.%(full)	7.74	7.81	7.91	7.83	7.79	10.01				
P/E Ratio (net) (*)	15.93	15.79	15.58	15.76	15.83	12.15				
SEAQ Bargains (5 pm)	58,291	69,647	46,011	52,856	50,389	—				
Equity Turnover (£m)	—	2362.83	1877.58	1637.50	1157.21	469.69				
Equity Bargains	—	74,477	55,886	59,187	51,849	23,951				
Shares Traded (ml)	—	956.2	652.9	607.2	555.0	222.7				

S.E. ACTIVITY

Indices	June 12	June 11
Gilt Edged Bargains	216.0	152.7
Equity Bargains	482.6	362.1
Equity Value	4775.9	3795.1
5-Day Average		
Gilt Edged Bargains	164.0	144.8
Equity Bargains	384.2	348.7
Equity Value	3256.7	2769.3

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1776.3	1771.1	1777.0	1777.6	1781.1	1783.3	1786.5	1785.2

Day's High 1787.1. Day's Low 1770.6. Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974, *Nil=15.61.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1987

NEW HIGHS (487)

CORPORATION LOANS (1), LOANS (1), AMERICANS (3), CANADIANS (1), BANKS (14), BREWERS (10) BUILDINGS (27), CHEMICALS (10), STORES (22), ELECTRICALS (20), ENGINEERING (23), FOODS (18), HOTELS (5), INDUSTRIALS (89), INSURANCE (3), LEISURE (8), MOTORS (9), NEWSPAPERS (6), PAPER (23), PROPERTY (49), SHIPPING (4), SHOES (3), TEXTILES (4), TOBACCOS (1), TRUSTS (119)/ OILS (9), MINES (2), THIRD MARKET (1).

NEW LOWS (8)

FOREIGN BONDS (1), Iceland 6½pc 1983-88, BANKS (1), Brown Shipley, TRUSTS (3), European Assets, F & C Eurotrust, Paribas French.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Closing price	Day's change	Stock	Volume 000's	Closing price	Day's change
ASDA-MFI	6,700	185	+1	Ladbroke	2,200	435	−1
Allied Lyons	1,200	445	−2	Land Securities	2,900	553	+17
Amstrad	6,700	187	—	Legal & Gen.	3,600	369	+10
Argyll Group	3,350	495	+8	Lloyds Bank	2,300	578	+13
Assoc. Brit. Foods	209	406	+10	Lonrho	874	279½	−6½
BAT	3,100	599	+14	MEPC	1,400	508xd	+12½
BET	1,500	287½	+5½	Marks & Spncr	4,300	274½	−3½
BOC	1,100	469	+9	Midland Bank	3,325	628	+20
BPB Inds	260	864	−1	NatWest Bank	2,300	703	+13
BPCC	1,200	302	−3	Next	2,500	345	−4
BTR	3,000	330	+10	Pearson	285	629	−1
Barclays	3,100	578	−2	P & O	1,300	706	+4
Bass	330	£10¼	—	Pilkington Bros	2,500	930xd	+22½
Beecham	2,400	568xd	+6	Plessey	7,300	221	+5
Blue Circle	1,400	510	−2	Prudential	1,100	£10⅞	+⅜
Boots	1,900	305	−3	Racal	2,400	264	−1
Brit. Airways	3,600	162½	−1½	Rank Org	120	782	+6
Brit. Aero	1,400	574	—	RHM	1,100	340	+7
Brit. & Comm.	306	465	+3	Reckitt & Col	112	£11⅞	+⅛
British Gas	24,200	195½	+4½	Redland	852	533	+6
Britoil	2,300	313	+½	Reed Intl.	2,100	485xd	+26
BP	3,500	357	—	Reuters	1,800	639	+35
Brit. Telecom	5,730	324½	−3	RMC	130	514xc	+1½
Bunzl	287	249	+1	RTZ	1,300	993	−19½
Burton	5,300	357	+10	Rolls-Royce	7,200	134	—
Cable & Wire	3,100	425	—	Rowntree Mac	1,200	549	+5
Cadbury Schwps	2,900	263	+6	Ryl Bank Scotland	134	364	−2
Coats Viyella	268	651	+1	Royal Insurance	5,100	497	+29
Comm. Union	7,000	348	+10	STC	2,400	316	+2
Cons. Gold	522	£10⅞	−¼	Saatchi & Saatchi	1,900	635	+34
Cookson	1,400	687	—	Sainsbury	419	595	−3
Courtaulds	2,000	471	+8	Scott & Newcastle	2,600	255	—
Dee Corpn	890	247	+5	Sears	9,900	167	+2½
Dixons Grp	2,100	377	+1	Sedgwick	1,300	290	+12
English China Clays	454	488	−7	Shell Trans	1,000	£13¾	+¼
Fisons	770	390	+6	Smith & Nephew	3,140	181½	+6½
Gen. Accident	454	977	+19	Standard Chart.	344	795	—
Gen. Elect.	1,500	235	−1	Storehouse	2,700	297	+6
Glaxo	1,000	£17½	—	Sun Alliance	775	965	+30
Globe Investment	919	182½	+3	TSB	10,000	99¼	+3½
Granada	454	346	—	Tarmac	3,900	326	—
Grand Met	2,000	577	+3	Tesco	2,000	599	+13
Gus "A"	300	£14⅞	+¼	Thorn EMI	1,400	748	+8
Guardian R.E.	450	977	+21	Trafalgar House	627	377½	+3½
GKN	643	331	−1	T'house Forte	4,500	266	+8
Guinness	2,600	388	+1	Unigate	798	430xd	+2
Hanson Trust	6,800	168½xd	+1	Unilever	239	£32½	+½
Hawker Sidd	1,200	513	+13	United Biscuits	1,400	332	+1
Hillsdown Hldgs	1,200	303	+2	Wellcome	198	436	−8
ICI	2,400	£14½	+¼	Whitbread "A"	344	362xd	+1½
Jaguar	1,700	550	+11	Woolworth	2,200	455	−6

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	0	111	2
Corporations, Dominion and Foreign Bonds	4	19	36
Industrials	830	234	491
Financial and Properties	383	48	167
Oils	41	27	46
Plantations	3	2	9
Mines	36	80	72
Others	149	26	71
Totals	1,446	547	894

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Monday June 15 1987 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (ACT at 27%)	Est. P/E Ratio (Net)	xd adj. 1987 to date	Fri June 12 Index No.	Thurs June 11 Index No.	Wed June 10 Index No.	Year ago (approx.) Index No.
1	CAPITAL GOODS (212)	955.03	+1.0	7.20	2.80	17.47	9.84	945.84	931.02	932.97	719.40
2	Building Materials (28)	1274.76	+0.5	6.72	2.64	18.58	12.92	1268.31	1241.84	1230.14	783.01
3	Contracting, Construction (33)	1687.20	+2.1	7.11	2.82	18.87	19.05	1651.95	1609.28	1593.36	1200.04
4	Electricals (13)	2401.85	+2.0	5.55	3.26	24.19	31.62	2355.81	2334.42	2370.57	1940.16
5	Electronics (35)	2104.18	+0.3	7.32	2.11	17.78	12.62	2098.33	2058.84	2078.25	1667.48
6	Mechanical Engineering (60)	504.09	+0.9	8.27	3.39	15.16	7.31	499.44	494.39	470.36	406.10
8	Metals and Metal Forming (7)	527.50	+1.6	7.04	2.88	17.11	5.48	519.41	515.38	520.96	352.35
9	Motors (15)	360.68	+1.5	8.46	2.96	13.76	3.42	355.31	349.93	352.85	299.13
10	Other Industrial Materials (21)	1564.34	+1.5	6.36	3.16	18.96	18.77	1541.95	1530.46	1530.29	1289.57
21	CONSUMER GROUP (185)	1338.15	+0.7	5.95	2.49	21.55	13.05	1329.39	1305.30	1306.10	898.02
22	Brewers and Distillers (22)	1239.20	+0.1	7.63	2.85	16.57	11.65	1238.34	1217.14	1221.55	924.55
25	Food Manufacturing (25)	1026.62	+1.7	6.83	2.94	19.06	12.74	1009.88	993.81	993.94	656.38
26	Food Retailing (15)	2549.11	+1.0	5.14	2.26	26.59	21.12	2524.09	2443.81	2419.57	1718.96
27	Health and Household Goods (10)	2556.09	+0.1	3.95	1.56	29.64	14.62	2554.01	2511.65	2541.92	1589.44
29	Leisure (31)	1372.19	+1.1	5.81	3.09	22.64	16.11	1356.72	1332.63	1338.96	884.76
31	Packaging & Paper (15)	687.54	+1.5	6.07	2.49	20.79	7.40	677.22	671.90	671.92	469.34
32	Publishing & Printing (15)	3932.90	+1.5	5.75	3.09	22.37	54.63	3875.13	3846.98	3859.31	2464.54
34	Stores (36)	1152.04	+0.2	6.27	2.48	21.53	11.73	1149.47	1125.45	1114.89	851.62
35	Textiles (16)	764.52	+0.7	8.01	2.93	14.49	10.56	759.17	753.82	758.39	519.50
40	OTHER GROUPS (86)	1125.41	+0.8	7.44	3.01	16.82	9.74	1116.60	1098.70	1107.20	780.79
41	Agencies (16)	1600.81	+3.0	4.29	1.50	30.72	9.50	1554.27	1525.94	1495.29	0.00
42	Chemicals (21)	1350.56	+1.7	7.23	3.26	16.96	19.32	1327.78	1314.10	1328.04	883.43
43	Conglomerates (11)	1360.61	+0.3	7.71	3.28	14.83	13.73	1356.10	1344.34	1349.56	0.00
45	Shipping and Transport (11)	2277.40	+0.9	6.93	3.53	18.08	37.76	2258.12	2243.43	2252.35	1509.20
47	Telephone Networks (2)	1245.96	−0.8	7.51	3.01	18.17	1.09	1255.38	1219.17	1232.73	872.76
48	Miscellaneous (25)	1502.17	+1.8	8.77	2.93	13.65	18.08	1475.40	1461.06	1482.50	1026.81
49	INDUSTRIAL GROUP (483)	1194.43	+0.8	6.67	2.71	18.99	11.44	1185.27	1165.19	1168.59	832.67
51	Oil & Gas (17)	2225.57	+1.0	4.91	4.15	26.36	37.29	2202.84	2175.34	2190.10	1190.35
59	500 SHARE INDEX (500)	1281.89	+0.8	6.41	2.92	19.82	13.70	1271.57	1250.88	1255.25	864.53
61	FINANCIAL GROUP (118)	798.29	+2.3	—	3.67	—	12.57	780.26	764.52	760.03	576.02
62	Banks (8)	827.98	+1.3	16.73	4.53	7.90	15.49	817.67	797.03	792.22	604.10
65	Insurance (Life) (9)	1163.03	+2.1	—	3.62	—	20.71	1139.27	1118.22	1087.88	795.34
66	Insurance (Composite) (7)	583.82	+3.2	—	4.19	—	11.76	565.77	556.93	554.70	458.20
67	Insurance (Brokers) (9)	1191.89	+2.5	9.03	4.52	14.27	26.32	1162.35	1179.29	1192.34	1139.48
68	Merchant Banks (11)	402.42	+2.8	—	3.19	—	4.41	391.53	384.86	385.44	352.67
69	Property (46)	1224.81	+3.1	3.78	2.39	34.36	10.92	1188.22	1157.18	1158.32	764.91
70	Other Financial (28)	521.46	+2.6	6.28	3.05	21.04	5.42	508.34	499.20	497.22	341.62
71	Investment Trusts (93)	1062.76	+0.9	—	2.25	—	10.58	1052.87	1038.29	1040.18	742.09
81	Mining Finance (2)	501.38	−2.1	6.10	3.31	19.28	6.79	512.15	512.15	510.30	269.16
91	Overseas Traders (11)	1049.82	−0.2	8.43	4.42	14.16	22.64	1051.53	1044.86	1046.86	658.99
99	ALL-SHARE INDEX (724)	1149.72	+1.0	—	3.03	—	13.26	1138.39	1119.63	1121.81	781.83

	Index No.	Day's Change	Day's High	Day's Low	June 12	June 11	June 10	June 9	June 8	Year ago
FT-SE 100 SHARE INDEX ‡	2307.6	+18.1	2310.6	2293.5	2289.5	2249.3	2256.1	2265.2	2228.4	1582.4

FIXED INTEREST

	PRICE INDICES	Mon June 15	Day's change %	Fri June 12	xd adj. today	xd adj. 1987 to date
	British Government					
1	5 years	124.32	−0.34	124.92	0.19	5.47
2	5-15 years	144.70	−0.86	146.76	0.80	6.64
3	Over 15 years	155.05	−1.32	158.32	1.18	6.68
4	Irredeemables	170.08	−0.83	171.51	—	6.30
5	All stocks	140.78	−0.79	142.57	0.66	6.30
	Index-Linked					
6	5 years	122.29	−0.36	122.74	—	0.83
7	Over 5 years	115.90	−1.17	117.27	—	1.43
8	All stocks	116.25	−1.10	117.54	—	1.36
9	Debentures & Loans	125.56	+0.03	125.72	0.20	5.86
10	Preference	89.60	+0.06	89.69	0.14	3.01

	AVERAGE GROSS REDEMPTION YIELDS		Mon June 15	Fri June 12	Year ago (approx.)
	British Government				
1	Low	5 years	7.94	7.81	7.51
2	Coupons	15 years	8.73	8.58	8.93
3		25 years	8.74	8.59	9.00
4	Medium	5 years	8.78	8.60	9.04
5	Coupons	15 years	8.97	8.82	9.31
6		25 years	8.97	8.82	9.32
7	High	5 years	8.98	8.83	9.21
8	Coupons	15 years	9.09	8.95	9.48
9		25 years	8.89	8.76	9.39
10	Irredeemables		8.86	8.72	8.82
	Index-Linked				
11	Inflat'n rate 5%	5 yrs	2.52	2.40	3.78
12	Inflat'n rate 5%	Over 5 yrs	3.76	3.69	3.35
13	Inflat'n rate 10%	5 yrs	2.14	2.02	2.50
14	Inflat'n rate 10%	Over 5 yrs	3.69	3.61	3.18
15	Debs &	5 years	9.81	9.46	10.34
16	Loans	15 years	9.87	9.81	10.23
17		25 years	9.90	9.91	10.25
18	Preference		10.13	10.11	10.43

‡Opening index 2301.9; 10 am 2295.0; 11 am 2299.8; Noon 2300.8; 1 pm 2304.9; 2 pm 2308.8; 3 pm 2310.3; 3 30 pm 2306.9; 4 pm 2306.8

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, the Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price p	+ or −	Net. Div.	Times Cov'd	Gross Yield	P.E. Ratio
§132	F.P.	30/6	177	155	B.D.A. Hldgs. 10p	172	+2	L2.5	1.70	2.0	18.8
§77	F.P.	—	112	90	Barrett (Henry) 10p	108	+3	R2.81	2.2	3.6	17.1
§77	F.P.	30/6	107	96	◆Bonded Laminates 10p	105	....	L2.4	2.4	3.1	18.4
§185	F.P.	6/7	242	210	Chemoxy Intl.	240	..	L4.9	2.7	2.8	16.9
—	F.P.	—	19	10	ChildHealthRes. Wrts	19	....	—	—	—	—
§125	F.P.	—	185	145	◆Colorgraphic 10p	183	+6	L3.0	2.8	2.2	21.3
§230	F.P.	10/7	297	278	Computer People 5p	297	..	u3.6	3.2	1.7	26.0
§56	F.P.	17/7	82	75	◆de Morgan 5p	77	+2	R1.0	4.3	1.8	18.0
§76	F.P.	19/6	99	76	◆GC Floor & Furn's	86	.....	L1.95	2.8	3.11	15.8
§170	F.P.	1/7	205	188	Hambros Adv. Tech Tst.	192	....	—	—	—	—
§130	F.P.	15/7	170	142	Neotronics 5p	142	.....	RL8	4.2	1.7	18.8
—	F.P.	—	120	80	OriflameIntWarrants£	120	....	—	—	—	—
125	F.P.	26/6	190	180	Pickwick	188	....	R2.5	3.1	1.8	24.6
§83	F.P.	—	97	88	Practical Invs.	96½		—	—	—	—
¶¶	F.P.	—	103	94	River & Merc. Cap 12½p	103	+2		—	—	—
¶¶	F.P.	—	103	98	Do. Inc. 12½p	98	....	H5.67	—	7.8	—
¶¶	F.P.	—	34	18	Do. Wts. 12½	34	+3	—	—	—	—
¶¶	F.P.	—	102	98	Do. Stepped Prf 12½p	101	−½	H4.20	—	5.7	—
170	85	23/9	154	128½	Rolls-Royce 20p	135	+1	W4.99	2.7	3.1	13.3
§100	F.P.	—	103	100	Saltire Insurance	103	....	—	—	—	—
§125	F.P.	19/6	200	155	◆Sharp & Law 10p	185	....	u3.0	2.4	2.2	25.3
§92	F.P.	24/6	100	96	◆Shoraiplan 5p	96	.	u1.6	3.6	2.1	16.5
¶¶	F.P.	—	162	135	Smith Doctors 5p	162	+24	0.25	—	2.11	—
125	F.P.	15/7	265	224	◆Sock Shop Intl.5p	252	+5	R1.35	3.8	7.3	48.7
§125	F.P.	2/6	167	158	◆UCL Group 5p	167	..	u2.5	2.8	2.1	23.6
135	F.P.	4/9	170	160	Wehmiller(Barry)Intl 5p	165	−2	R4.0	2.9	3.3	11.7

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price £	+ or −
—	F.P.	—	115	98	Barndene Invs. 15% Uns Ln. 2007 12	107	+2
§95.982	£25	30/11	28	25¼	Cap & Counties 9⅞% 1st Mt. Db 2027	27⅞	−⅛
§99.239	F.P.	20/7	99¼	98⅝	Dares Est. 10¼% 1st Mt. Deb. 2012	99⅛	....
¶¶	F.P.	—	139	113	◆Ecobric 12¼% Cnv. Uns. Ln. 1988/90	139	+7
¶¶	F.P.	—	143p	108p	◆Gibbons Lyons 7% Cnv Cum Red Pf. (£1)	140p	−3
—	£25	28/8	26½	23¾	Gt. Portland Ests. 9½% 1st Mt. Db 2016	25	−⅛
—	£10	—	11	11	Mid-Southern Water 7% Red. Prf. 1997	11	....
—	F.P.	—	101	99⅞	Nationwide 8⅞pc 23.5.88	100¼	....
—	F.P.	—	100⅛	99⅞	Do. 8⅞ pc Bd. 20/6/88	100	....
‖	Nil	29/7	27pm	20pm	Noble & Lund Bac CnvCumRedPrf(£1)	20pm	−1
—	£25	11/11	25½	23	North Housing Assoc. 8¾% Gtd. in 2037	24	+⅛
—	F.P.	7/7	298p	240p	Do Zero Cpn. Ln. 2027	297p	+5
—	F.P.	—	175p	165p	P&O Subs. Warrts. 1988-92 (Am. Wrrts)	170	....
§95.221	£25	2/10	26	23½	Peachey Property 9½% 1st Mt. Deb. 2015	25½	−⅛
—	£40	12/8	42	38¾	Peel 9⅞pc 1st Mt. Deb. 2011	42	+¼
§—	F.P.	15/7	106p	101p	Prowting 8.3% Cum. Red. Prf 2002 (£1)	106p	+1
§—	F.P.	—	174p	172p	Do. 13¾% Cum. Prf. (£1)	172p	....
§98.221	£25	9/10	26¼	24	Scot. Eastern Inv Tst. 9¼% Deb 2020	25½	+⅛
¶¶	F.P.	—	113p	106p	Spong Cnv. Com. Red. Prf. (20p)	111p	−2
§98.105	F.P.	10/7	101⅛	99⅞	Tr Ind & Gen Tst. 10% Deb 2016	101⅛	−¼
—	F.P.	—	127	115	Wickes 5½% Sub. Cnv. Un. Ln.	127	....

"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price p	+ or −
210	Nil	24/7	65pm	42pm	Arlington Securities 10p	65pm	+15
136	Nil	—	83pm	70pm	Bank Ireland cap. (Ir £1)	81pm	−2
350	Nil	23/7	70pm	48pm	Berkeley Group	70pm	+18
¶¶	Nil	19/6	625pm	200pm	Brathwaite £1	200pm	−45
625cts	Nil	19/6	130pm	80pm	Cons Murchison	90pm	.....
DM450	Nil	—	278pm	252pm	Deutsche Bk. Dm50	266pm	....
25	Nil	24/7	21pm	15pm	Enlcore Hldgs. 5p	21pm	+5½
250	Nil	22/7	100pm	85pm	◆FKB Group 5p	100pm	....
210	Nil	—	53pm	44pm	Hazlewood 10p	53pm	+2
¶¶	Nil	29/5	68pm	45pm	Inv. in Success Wrts.	60pm	....
397	Nil	20/7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
265	Nil	[illegible]	114pm	84pm	Kennedy Brookes 10p	111pm	−1
180	Nil	[illegible]	[illegible]	[illegible]	Quick (H. & J.) 10p	[illegible]	[illegible]
21	Nil	[illegible]	[illegible]	[illegible]	Rock 10p	[illegible]	[illegible]
345	Nil	[illegible]	[illegible]	[illegible]	5 Tay Homes	8pm	[illegible]
575	Nil	24/7	77pm	67pm	WCRS Grp. 10p	77pm	+2

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. n Assumed dividend and yield after scrip issue. F Dividend and yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates for 1986/7. H Dividend and Yield based on prospectus or other official estimates for 1987. W Pro Forma Figures. ‡ Indicated dividends, cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. † Issued by tender. ¶ Offered holders of ordinary shares as a "rights." ‡ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ‖ Allotment price. ◆ Unlisted securities market. ‡‡ Official London listing. ++ Including warrants entitlement. ‖ Placing and offer for sale price.

WORLD STOCK MARKETS

AUSTRIA
[illegible]

BELGIUM/LUXEMBOURG
[illegible]

DENMARK
[illegible]

FINLAND
[illegible]

FRANCE
[illegible]

GERMANY
[illegible]

ITALY
[illegible]

NETHERLANDS
[illegible]

NORWAY
[illegible]

SPAIN
[illegible]

SWEDEN
[illegible]

SWITZERLAND
[illegible]

AUSTRALIA
[illegible]

AUSTRALIA (Continued)
[illegible]

HONG KONG
[illegible]

JAPAN
[illegible]

JAPAN (Continued)
[illegible]

SINGAPORE
[illegible]

SOUTH AFRICA
[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Kroner.

CANADA

TORONTO
Closing prices June 15

[illegible]

Total Sales 6,088,428 shares

MONTREAL
Closing prices June 15

[illegible]

Indices

NEW YORK DOW JONES

	June 15	June 12	June 11	June 10	June 9	June 8	1986/87 High	1986/87 Low	Since Compilation High	Since Compilation Low
Industrials	2,381.54	2,377.73	2,360.13	2,353.61	2,352.7	2,351.84	2405.54 (6/4/87)	1827.31 (2/1)	2405.54 (6/4/87)	41.22 (2/7/32)
Transport	1,021.11	1,020.53	1,020.37	1,023.22	1,013.34	1,001.42	1029.53 (12/6/87)	818.38 (2/1)	1029.53 (12/6/87)	12.32 (8/7/32)
Utilities	203.71	203.77	201.75	201.12	201.12	201.66	227.83 (22/1/87)	191.39 (28/5)	227.83 (6/4/87)	10.5 (8/4/32)
Trading vol	—	175.67m	138.80m	178.90m	161.13m	138.37m	—	—	—	—

	May 29	April 24	April 10	Year Ago (Approx)
Ind Div Yield %	2.93	2.88	2.86	3.57

STANDARD AND POORS

	June 15	June 12	June 11	June 10	June 9	June 8	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Industrials	350.00	348.12	345.35	343.82	344.00	344.10	348.83 (6/6/87)	274.58 (2/1/87)	348.40 (6/4/87)	3.82 (21/6/32)
Composite	303.14	301.62	298.73	297.47	297.28	296.72	301.95 (6/4/87)	246.45 (2/1/87)	301.95 (6/4/87)	4.40 (1/6/32)

	June 3	May 27	May 20	Year Ago (Approx)
Ind div yield %	2.51	2.58	2.94	3.85
Ind. P/E Ratio	22.43	21.87	21.21	17.23
Long Gov Bond Yield	8.93	8.65	9.07	8.07

N.Y.S.E. ALL COMMON

June 15	June 12	June 11	June 10	1987 High	1987 Low
170.6	169.65	168.24	167.53	171.08 (24/3/87)	141.00 (21/1)

RISES AND FALLS

	June 12	June 11	June 10
Issues traded	1,987	1,979	1,977
Rises	1,077	884	857
Falls	485	615	687
Unchanged	395	480	433

TORONTO

	June 15	June 12	June 11	June 10	1987 High	1987 Low
Metals & Minls	2,888.7	2,881.2	2,824.5	2,865.2	2,843.5 (11/5/87)	1,888.2 (2/1/86)
Composite	3,710.4	3,725.5	3,725.5	3,700.8	3,881.2 (6/4/87)	3,067.8 (2/1/86)
MONTREAL Portfolio	1,860.11	1,865.89	1,865.88	1,855.74	1,835.0 (6/4/87)	1,534.3 (2/1/85)

* Indicates pre-close figure

	June 15	June 12	June 11	June 10	1987 High	1987 Low
AUSTRALIA						
All Ord (1/1/80)	1818.4	1827.7	1803.9	1788.6	1858.8 (18/5)	1486.7 (2/2)
Metals & Minerals (1/1/80)	1122.4	1139.8	1105.9	1085.5	1287.5 (18/5)	729.1 (2/1)
AUSTRIA						
Credit Aktien (30/12/84)	183.60	184.03	184.60	184.18	230.60 (2/1)	183.43 (25/5)
BELGIUM						
Brussels SE (3/1/84)	4653.30	4640.52	4619.40	4605.60	4683.0 (15/5)	3987.86 (9/1)
DENMARK						
Copenhagen SE (3/1/83)	(u)	210.70	208.60	207.80	217.57 (22/1)	189.64 (6/1)
FINLAND						
Unitas General (1975)	545.9	544.1	540.1	537.7	545.9 (15/6)	425.2 (5/1)
FRANCE						
CAC General (31/12/82)	415.60	409.70	408.00	407.10	460.4 (26/3)	392.0 (2/1)
Ind Tendance (31/12/86)	104.1	102.50	102.00	101.10	117.2 (26/3)	97.8 (2/1)
GERMANY						
FAZ Aktien (31/12/58)	591.65	582.85	583.08	577.46	676.84 (6/1)	538.32 (19/3)
Commerzbank (1/12/53)	1783.6	1756.00	1756.60	1740.60	2048.3 (6/1)	1633.8 (19/3)
HONG KONG						
Hang Seng Bank (31/7/64)	(c)	3129.88	3087.52	3097.33	3129.88 (12/6)	2449.88 (20/1)
ITALY						
Banca Com. Ital (1972)	700.56	697.98	693.33	696.46	767.34 (30/4)	673.60 (3/3)
JAPAN**						
Nikkei (16/5/49)	25756.44	25894.27	25890.95	25738.96	25894.27 (12/6)	18544.0 (13/1)
Tokyo SE New (4/1/68)	2241.08	2255.67	2258.56	2243.07	2258.56 (11/6)	1557.46 (13/1)
NETHERLANDS						
ANP CBS Gen (1970)	295.1	289.90	290.10	288.30	295.1 (15/6)	257.7 (28/1)
ANP CBS Indust. (1970)	247.6	243.70	243.60	244.30	274.9 (5/1)	243.60 (11/6)
NORWAY						
Oslo SE (4/1/83)	433.40	432.04	430.26	429.34	436.16 (24/4)	361.98 (2/1)
SINGAPORE						
Straits Times (30/12/66)	1226.36	1227.04	1226.63	1224.37	1245.71 (5/6)	889.08 (2/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	(u)	2161.0	2134.0	2121.0	2908.0 (27/4)	1786.0 (19/3)
JSE Indust (28/9/78)	(u)	1898.0	1869.0	1885.0	1957.0 (19/5)	1423.0 (2/1)
SPAIN						
Madrid SE (30/12/85)	229.27	227.33	225.27	226.06	255.95 (23/2)	202.89 (6/5)
SWEDEN						
Jacobson & P. (31/12/56)	(u)	2678.14	2667.90	2678.30	2782.10 (6/5)	2111.39 (28/1)
SWITZERLAND						
Swiss Bank Corp (31/12/58)	587.50	582.30	580.40	578.40	603.3 (6/1)	564.5 (25/2)
WORLD						
M.S.Capital Intl. (1/1/70)	(u)	480.30	479.3	477.60	479.30 (12/6)	361.3 (2/1)

**Saturday June 13: Japan market closed.

Base values of all indices are 100 except Brussels SE—1,000 JSE Gold—255.7 JSE Industrials—264.3 and Australia. All Ordinary and Metals—500; NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities. 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Compania Tele	4,607,300	22½	...
Pan Am Cp	2,908,600	5¼	+⅛
Peoples Egy	2,611,500	20	−⅛
Dayton Hud	2,174,800	54½	......
Texaco	2,040,000	39¾	+⅞
ATT	1,958,300	26½	+⅛
Archer-Dan	1,817,000	23⅛	+⅛
Gen Elec	1,683,500	53⅞	+⅝
Singer	1,677,000	40⅝	−4⅞
Amer Expr	1,633,100	33⅛	+1

TOKYO – Most Active Stocks
Monday, June 15, 1987

	Stocks Traded	Closing Prices	Change on Day
Kawasaki Steel	47.35m	288	−11
Nippon Steel	42.47m	381	− 8
Japan Line	29.24m	238	+11
Hitachi	27.28m	1,130	+30
Konishiroku Photo	22.81m	790	+50
Matsushita Electric	16.80m	2,050	+110
Fujitsu	16.21m	1,140	+ 10
Sumitomo Metal	12.28m	242	− 5
Mitsubishi Electric	12.08m	603	+ 4
Toshiba	10.77m	748	+ 7

LONDON Chief price changes
(in pence unless otherwise indicated)

RISES:

Airflow Strmlns	143xd	+10
Alexon	368	+20
Alld Colloids	304½	+17½
Amber Day	48	+ 7
Ang. Sec Homes	495xd	+30
Asso Bk Publshrs	580	+25
Assoc Brit Ports	607	+20
Assoc Fisheries	248	+46
Beecham	568xd	+ 6
Black (A&C)	480	+65
Brit Gas	195½	+ 4½
Burton	357	+18
Commerc. Union	348	+10
Courtaulds	471	+ 8
Evans Halshaw	252	+11
Land Secrts	553	+17
MLPC	508xd	+12½
Mang. Bronze	245	+25
Marina Dev	403	+21
Midland Bank	628	+20
Mowlem (J)	485	+17
Pilkington Bros	930xd	+22½
Ransomes Sims	308	+27
Reed Intl	485xd	+26
Ricardo	178	+22
Royal Insurance	497	+29
Wimpey (George)	259	+10

FALLS:

2001-04	£73	− 4
Conv. 9¾pc 2006		
Vaal Reefs		

OVER-THE-COUNTER
Nasdaq national market, closing prices

Continued from Page 47

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NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
33⅝	20⅛	AAR s	.50	1.5	29	872	33	32½	33	+⅛
37	21⅞	ADT	.92	2.9	18	156	32½	32¼	32¼	
27¾	16¾	AFG s	.16	.6	12	405	26⅞	25½	26⅝	
22⅜	8⅝	AGS s			19	762	19⅛	17¾	18½	+⅞
13	6¾	AMCA				21	8	7⅞	8	+⅛
9⅜	4⅞	AM Intl				1018	7¼	7	7⅛	
62⅛	47¼	AMR			13	4203	60½	59½	60⅛	+¼
27½	24⅞	ANR pf	2.67	10.		3	25¾	25¾	25¾	+¾
11¾	6	ARX s			12	542	10⅝	10¼	10⅝	+⅛
73½	28¾	ASA	2a	3.4		941	58⅝	57½	58	−¾
20	9¾	AVX		1.8	69	454	17⅞	17½	17⅞	+⅜
67	41	AbtLab	1	1.5	27	4660	65⅛	63¼	64⅞	+1⅞
25	16⅝	AccoWs	.44	1.8	22	750	u25⅛	23½	24	−½
15⅛	9	AcmeC	.40	3.0	10	120	13¼	13⅛	13⅛	−⅜
8⅝	6⅛	AcmeE	.32b	4.1	30	7	7⅞	7¾	7¾	
23⅞	19	AdaEx	3.42e	16.		104	22	21¾	21¾	+⅛
19½	11⅜	AdmM s	.24	1.4	13	37	17	16¾	17	
23½	12⅛	AdvSys	.62t	2.7	17	659	23½	23	23	−½
24½	12⅞	AMD				3012	20⅞	20	20¼	−½
54¾	49⅝	AMD pf	3	5.8		6	52⅝	52⅛	52⅛	−¼
10¾	5¼	Adobe				814	9¼	9	9	−¼
20½	13¾	Adob pf	1.84	9.7		46	19½	19	19	
21⅞	16⅝	Adov pf	2.40	12.		84	20⅝	20¼	20½	
16⅛	10⅝	Advest	.12a	.9	9	199	13	12¾	12¾	
68¼	53	AetnLf	2.76	4.5	8	5829	61¼	60	61	+1½
53⅝	51⅛	AetL pf	3.75e	7.3		21	51⅝	51½	51½	−¼
63½	26½	AflPb s	.32	.5	33	162	63	62½	62¾	+¼
29¾	18⅝	Ahmans	.88	4.0	7	4785	22½	22	22¼	
5⅝	2⅞	Aileen				18	4⅝	4½	4⅝	−⅛
48½	29⅛	AirPrd	.80	1.7	26	1151	47	46⅝	47	+¾
36	16	AirbFrt	.60	1.8	13	959	33½	32⅞	33½	+⅞
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 47

NYSE COMPOSITE CLOSING PRICES

Continued from Page 46

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
95½	67	PhilIn pf	1	1.0	...	1	u101	101	101	+5½
25⅞	18⅝	PhilGl	.80r	3.4	11	138	23½	23⅜	23½	−⅛
17⅛	8¼	PhilPet	.60	3.6	46	4429	16¾	16⅝	16⅝	+⅛
24¾	19¼	PhlPt	pf1.75e	7.2		38	24¼	24¼	24¼	+⅜
50¼	37¾	PhlVH	.70	1.4	15	82	u50½	49⅞	50	−¼
19¾	15	PhlVH wi				1	u20⅛	20⅛	20⅛	
13½	5⅛	Phicrp n				83	6¾	6⅝	6¾	+¼
71	35¾	PiedAv	.32	.5	17	1106	68¾	68⅝	68¾	
71	49½	PiedA pf				23	69	69	69	
24⅛	17	PiedNG	1.32	6.3	10	130	21	20⅞	21	
19¾	10⅛	Pier 1	s.08b	.4	30	312	18⅝	18⅜	18⅝	+⅛
11	7¼	PilgRg	.26e	3.3		137	8¼	8	8	−¼
15⅝	8¼	PilgPr	n.02e	.2	11	84	11½	11¼	11¼	−⅛
46⅛	32¾	Pilsby	s 1	2.3	19	4579	44¼	43⅛	44	+1¼
32¾	25⅞	PinWst	2.80	8.8	10	1222	32	31⅞	32	
36¾	21⅞	PionrEl	.13e	.4	89	68	36¾	36⅜	36½	−⅛
46⅛	27⅝	PitnyB	s .76	1.8	19	1225	41⅝	40⅝	41⅜	+⅝
181	114	PitnB	pf2.12	1.3		2	164	162½	164	+2½
16½	10½	Pittstn			47	1511	16¼	16	16⅛	−¼
33¾	20¼	Plat	.P.05e	.2	73	28	31⅝	31½	31½	+⅛
25¼	14¾	Plantrn	.16	.7	20	86	22½	22	22½	−⅛
14¾	5⅞	Playboy				98	14⅛	14	14	−⅛
40¾	23½	Plessey	1e	2.8	15	189	35⅝	34½	35⅝	−⅛
8⅝	4¼	PogoPd				18	7⅝	7⅝	7⅝	
85½	55¼	Polarid	1.20	1.5	22	1108	80	79	79⅞	+⅞
42¾	27⅝	Polard wi				45	40⅛	40	40	+¾
23⅝	8⅞	PopTals			19	686	u24½	23⅛	23⅞	+¾
20½	11⅛	Portec				33	12½	12¼	12¼	
36¾	22¾	PortGC	1.96	7.1	14	1315	27⅝	27½	27⅝	

[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
14⅛	7¾	SeaCt	pf1.46	11.		41	13⅝	13½	13½	−⅛
16½	10½	SeaC	pfB2.10	13.		11	15¾	15⅝	15⅝	
18½	9¾	SeaC	pfC2.10	13.		58	16¼	15⅞	15⅞	−⅛
51¼	34½	SeaC	pfD4.12	9.1		5	45⅝	45⅛	45⅝	
79¾	37⅜	Seagrm	1	1.4	16	1538	73⅝	72½	72¾	−⅛
21⅛	12⅞	Seagul			11	333	20⅞	20⅝	20⅞	−⅛
52¼	33⅛	SealAir	.52	1.1	20	30	46¼	45¾	46	−⅛
35⅝	23⅛	SealPw	1.10	3.4	13	532	32⅝	32⅛	32½	+⅛
56	39	Sears	2	3.9	13	8154	51⅞	51¼	51⅝	+⅜
42½	32	SecPac	1.80	4.4	8	2678	41⅜	41	41¼	+½
80	65	SequaA	15e	.2	14	81	76	75¾	75⅞	−⅛
82	68¼	SequaB	12e	.2	13	30	77¼	77¼	77¼	+¼
31⅞	19⅛	SvcCp	s .32	1.2	22	1375	26⅛	25½	26⅛	+¼

[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
17⅛	11¼	Tyler	.40	3.2	24	442	12½	12⅛	12½	+⅜
		U U U								
44½	18	UCCEL			38	1227	42¾	42¼	42½	
27⅛	17¼	UDC	s 2.20	9.9	8	93	22¼	22⅛	22⅛	
32	24	UGI	2.04	7.1	13	33	29	28¾	28⅞	
12¾	8¼	UNCInc			14	303	9¾	9¼	9¾	+¼
31⅜	20⅝	UNUM	n.20e	.8		673	24⅛	23⅞	23⅞	+⅛
21⅞	14⅜	URS			14	223	17⅜	17⅛	17⅛	−¼
48¾	36¼	USFG	2.48	6.2	10	x3640	40¾	39⅝	40¼	+⅜
62	52½	USFG	pf4.10	7.6		x19	54¼	53	54	+1
46½	31	USG	1.12	3.1	8	1456	36¾	36	36⅛	+⅜
29¼	20½	USLICO	.88	3.9	8	162	22¾	21¾	22¾	+¾

[illegible]

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		X Y Z								
81¼	49⅝	Xerox	3	3.8	19	2878	80	79⅛	79¾	+⅝
58¼	54⅜	Xerox	pf5.45	9.9		11	55⅛	55	55⅛	+⅛
28¾	21½	XTRA	.64	2.5		117	26⅛	25⅝	25⅞	−⅛
25½	15	YorkIn			16	89	25½	25¼	25¼	
6	2¼	Zapata				428	4⅝	4½	4½	
43⅞	20¾	Zayre	.40	1.4	16	5225	29⅝	28¼	29⅝	+¾
14¾	9¾	Zemex	.40	3.0	8	19	13⅜	13⅛	13¼	−⅛
29¾	18⅞	ZenithE				638	29¼	28¾	28⅞	−⅛
17½	8	ZenLab				477	10½	10¼	10½	
19½	12⅞	Zero	.36	2.1	18	147	17⅛	16¼	17	+¾
51¾	32¾	Zurnln	1.36	2.6	18	x185	u52½	51	52	+1¼
10⅝	8¾	Zweig	n.10e	1.1		672	9¼	9⅛	9⅛	−⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

[illegible]

OVER-THE-COUNTER *Nasdaq national market, closing prices*

[illegible]

Continued on Page 45

FINANCIAL TIMES

WORLD STOCK MARKETS

AMERICA

Dollar-led rally hits resistance below 2,400

WALL STREET

WITH the help of a firm dollar, Wall Street stock and bond prices made modest progress yesterday as the Standard & Poor's 500 stock index closed at a record high, *writes Roderick Oram in New York.*

Bonds gained about half a point although they suffered a brief setback during the session because of a spurt in commodity futures prices. Volume was thin with only light retail buying.

The Dow Jones industrial average closed up 13.81 points at 2,391.54, its sixth gain in a row. At its best it had been up almost 20 points before succumbing to some profit taking and the temporary jitters in the bond market.

The broader market advanced at a comparable rate, pushing up the Standard & Poor's 500 index 1.52 points to 303.14 to break its previous record of 301.95 set on April 6. The Dow industrial average is still some 14 points below its record closing level reached the same day.

New York Stock Exchange volume was moderate at 154.7m shares with advancing issues outnumbering those declining by 830 to 678. The NYSE composite index add 0.75 to close at 170.60.

Profit taking yesterday as the Dow approached the 2,400 level indicated stocks might face difficulty in building on recent gains. Some analysts expect prices to make further short term gains while others are concerned about the potential for volatile trading late in the week leading up to Triple Witching Day on Friday. Investors and traders are nervous that the new timetable for the expiration of stock index futures and options and options on underlying shares could have some unexpected consequences.

Among the blue chips, Primerica rose $1½ to $43⅞, American Express edged up $⅛ to $35⅞, Boeing added $1 to $47⅞, Eastman Kodak jumped $2¼ to $84⅞, McDonald's gained $1½ to $86⅝ and Sears Roebuck advanced $⅝ to $51⅝.

Ford Motor jumped $3⅝ to $97⅝. The group, which has been the subject of favourable news stories recently, reported that early June car sales rose 7.2 per cent.

Falling bond yields helped boost interest rate sensitive stocks such as banks, insurance companies and savings and loan institutions. Aetna gained $1½ to $61, Citicorp rose $⅞ to $63, Great Western Financial added $⅞ to $21½ and Chubb rose $⅞ to $64⅞.

Some computer stocks were strong, IBM rose $3 to $159⅝, Digital Equipment gained $1⅝ to $165⅝, and Cray Research advanced $¼ to $103 although Apple Computer fell $½ to $78½, Unisys dropped $1 to $119⅝ and Hewlett-Packard fell $1⅛ to $62⅞.

JWT rose $1⅝ to $52. WPP Group said it was prepared to raise its offer for the advertising and public relations group to $50⅞ from $45 a share.

Spectra-Physics, a manufacturer of lasers, edged down $⅛ to $36¼ after it agreed to a $36½ a share offer from Ciba-Geigy, the Swiss chemicals and industrial group.

Caesars World slipped $⅜ to $33⅞. Mr Martin Sosnoff, a New York investor, dropped his bid for the casino group which will go ahead with a capital restructuring.

Big V Supermarkets rose $1⅛ to $20⅞. It agreed to a $21 a share takeover offer from a subsidiary of First Boston, the Wall Street investment banker.

Lamaur fell $2⅝ to $12⅛. The manufacturer of hair care and other toiletries said it expected its second quarter earnings to be below the year earlier 18 cents a share.

In the credit markets, bond prices rose as much as half a point in early trading on the strength of a firm dollar and buying abroad. But prices fell back during the morning after a sharp rise in the Commodities Research Burueau's index of commodities futures prices. The rise was attributed to soaring grains futures because of unseasonably hot, dry weather in the US.

Prices recovered during the afternoon to leave the benchmark 8.75 per cent long bond up ¹⁄₃₂ of a point at 103⅛₂ yielding 8.45 per cent.

Yields on shorter maturity bonds also eased down slightly although three-month Treasury bill yields rose about 10 basis points to 5.79 per cent. Six month and year bills rose less.

The Fed funds rate was firm at 6⅞ per cent, in part because yesterday was a tax payment date which placed heavy cash demands on the banking system.

The markets face the release of two key economic statistics today, but neither are expected to have much impact on bond prices. Housing starts are forecast to have fallen slightly in May from April's 1.65m at an annual rate because of higher mortgage interest rates. Secondly, industrial production in May is forecast to have risen slightly from the previous month's level.

CANADA

THE ADVANCE on Wall Street failed to outweigh the fall in the bullion price and Toronto share prices were mainly lower in active trading.

Among golds, Echo Bay lost C$2 to C$49 and International Corona C$1⅛ to C$37⅞, while Dome Mines eased C$⅝ to C$18⅞.

The non-precious metal sector saw Noranda C$⅝ lower at C$29⅞ while Alcan, which has agreed in principle to buy CAE Industries' Ontario unit, also shed C$⅝ to C$40½.

Shares with a New York listing tended higher against the trend, with Canadian Pacific up C$¼ at C$24½ and Seagram gaining C$1 to C$98⅞.

Banks also picked up a little from last week's losses as Bank of Montreal put on C$⅛ to C$33 and Toronto Dominion added C$¼ to C$28½.

Montreal was little changed

Foreigners lobby TSE on commissions

Peter Bruce in Tokyo reports on tension among overseas brokers who are seeking help from their governments over their complaint that planned cuts in charges may be discriminatory.

THE HANDFUL of foreign brokers allowed to trade on the Tokyo Stock Exchange have begun to lobby the Japanese authorities to restructure threatened cuts in the fixed commissions they charge.

Tension is high among the six foreign houses which began trading here early last year because they believe the new cuts planned by the TSE for this October could hurt them more than their established Japanese competitors, mirroring "discriminatory" cuts imposed last November.

The Japanese authorities then made big reductions in commissions chargeable on large-volume, institutional transactions (where the foreign houses do almost all their business), but made no changes in "retail" transactions, below Y10m ($70,000), where Japanese brokers have a monopoly.

On average, Japanese brokers, including Nomura Securities, the world's biggest broker, do about half their domestic business in smaller transactions where the commissions are much healthier.

"If we did nothing now I'd give a 90 per cent chance that the cuts would be the same as last year's," said one foreign broker. The six houses, Morgan Stanley, Jardine Fleming, Vickers da Costa, Goldman Sachs, Merrill Lynch and Warburg Securities, plan to make a presentation to the TSE in July or August and want political help from Washington and London.

"We want uniform cuts – the foreign securities houses are speaking with one voice on this," a broker said yesterday. "I think we are going to get a better hearing this time."

Nevertheless, the foreign houses fear that bureaucratic factions within the Ministry of Finance and the Bank of Japan will fight to protect the hundreds of small, regional securities dealers, many of whom have no institutional business, from any reductions.

Last year's cuts drove commissions on deals worth Y500m or more down from 0.45 per cent to 0.3 per cent and on Y300m transactions from 0.52 per cent to 0.35 per cent. But they left all deals at Y10m or below untouched at 0.95 per cent. A British broker said yesterday that getting into the Japanese retail business would be "a 10-year slog."

Neutral analysts point out, however, that Japanese commissions resemble the pattern set in other markets, where larger transactions also attract smaller percentages.

Although the foreign brokers in Tokyo say they want political support, some concede it could be hard to get. Both the US and British governments lent considerable support to their efforts to win initial access to the market but interference with the market's rules could be more difficult. Anyway, said one broker, "how could politicians (in the US and UK) support any system of fixed commissions at all?"

There are, however, some hopes here that the Japanese may be more amenable to foreign broker lobbying prior to Japanese efforts to win gilt-dealing licences in London in October.

"Ultimately we can take our business out of Japan," said a foreign broker, adding that many institutional customers might prefer that anyway because they could then negotiate commissions.

It was partly to stop this practice that the TSE introduced the new, lower fixed commission rates last year.

Vacant TSE seat worries foreign brokers, Page 29

EUROPE

Exporters shine in wide recovery

THE DOLLAR's recovery injected renewed vigour into European equity markets, with most rising in sharply higher turnover.

Frankfurt advanced broadly and strongly as the dollar's rise drew in foreigners to buy export stocks. The Commerzbank index rose 27.6 to 1,783.6.

In cars, BMW jumped DM 21.20 to a year's high of DM 641 amid intensified market rumours of a joint venture between the group and Japan's Honda. VW, itself reported to be co-operating with Toyota, added DM 6 to DM 384 despite news of a 55.4 per cent fall in US sales for the first 10 days in June on a year ago. Daimler was DM 18 up at DM 1,035.

Chemicals made ground. BASF was DM 5.20 higher at DM 300.50, Bayer DM 5.10 up at DM 322.50 and Hoechst DM 7.50 firmer at DM 283.

Deutsche Bank rose DM 9 to DM 580.50 in a healthy sector. Dresdner added DM 13 to DM 310 and Commerzbank was DM 8 up at DM 258.50.

Siemens was DM 12 higher at DM 708 and AEG improved by DM 2.80 to DM 312.50.

Bonds fell steeply on foreign sales spurred by the dollar's strength. The Bundesbank bought DM 139m of paper after buying DM 121.3m on Friday.

Zurich was carried solidly higher as foreign buyers were attracted back by the dollar's rise. Financials and industrials starred.

Union Bank led a firmer sector with a rise of SFr 75 to SFr 4,450. Insurers were also higher across the board. Helvetia registered were up SFr 75 at SFr 3,950 and Winterthur bearers SFr 90 ahead at SFr 6,000. Financial holding Adia bearers climbed SFr 375 to SFr 11,100.

Brown Boveri bearers led bullish industrials with a SFr 60 rise to SFr 2,200 and in chemicals Ciba-Geigy and Sandoz bearers were up SFr 90 and SFr 200 at SFr 3,290 and SFr 11,900 respectively.

Brussels closed narrowly higher in thin trade. The stock exchange index was 12.79 higher at 4,653.31.

Groupe Bruxelles Lambert added BFr 15 to BFr 3,775 in a quiet holdings sector. It is going ahead with a subordinated bond issue bearing warrants.

Blue chip Petrofina added BFr 75 to BFr 11,250. Solvay, a recent favourite, was unchanged at BFr 12,500. Cockerill-Sambre was BFr 7 up at BFr 177 amid general market applause for the group's restructuring programme.

Amsterdam moved up in a lively rally spurred by Wall Street's good Monday opening in which internationals reaped the biggest advantage.

Unilever led the pack, up Fl 12.80 to Fl 692.30, with Akzo Fl 1.70 higher at Fl 130.90

Paris improved sharply and evenly, buoyed both by international factors and by Economics Minister Mr Edouard Balladur's prognosis of a rosier second half economic performance. The CAC index was up 5.9 at 415.6.

Blue chip constructor Bouygues pulled back FFr 10 from last week's slide to a record low to close at FFr 1,070.

Source Perrier shares were suspended at Friday's FFr 770 close pending an explanation from the stock exchange. Reports attributed to company spokesmen said the move could be linked to Perrier's announced takeover of a Beatrice Foods mineral water subsidiary.

Milan gained slightly during the second day of polling in the general election. Selected blue chips led the advances.

Olivetti added L261 to L13,465. It will unveil a new personal computer range on June 23.

Italcementi retrieved its briefly interrupted momentum with a L1,250 rise to L97,700.

Madrid rose in advance of the release of inflation figures for May *expected to show a rise of no more* than 0.3 per cent. Telefonica jumped 3 percentage points to 186.25 per cent of nominal market value.

Stockholm firmed in light selling. The Veckans Affarer all-share index rose 4.6 to 996.1.

Oslo was mostly higher in dull trade. The all-share index was up 1.03 at 330.03.

London continues record run

STRONG domestic buying pushed London equities to a further closing peak, although government bonds were sold nervously as the pound weakened.

The FT-SE 100 index closed up 18.1 at a new high of 2,307.6, its first close above 2,300. The FT Ordinary index was up 18.8 at what was also a new peak of 1,786.6.

Financial issues again rose strongly and exporters were buoyed by sterling's dip. Privatisation issues continued to move up in busy trade following the Conservative Party's re-election on Thursday.

Gilts fell as sterling's weakness made the likelihood recede of an early cut in base lending rates. Drops of more than 1½ points took prices to below pre-election levels. Details, Page 44.

SOUTH AFRICA

GOLD STOCKS fell sharply in Johannesburg to their lowest levels since early April as the bullion price dropped and nerves set in over possible unrest today on the anniversary of the 1976 Soweto riots.

The gold index lost 64 to 2,077. Vaal Reefs plunged R20, or nearly 5 per cent, to R410, Randfontein lost R16 to R430 and Grootvlei slipped R1.50 to R16.25.

Other minings followed the trend, with De Beers down R35 cents

ASIA

High-tech gains fail to halt slide

TOKYO

HIGH-TECHNOLOGY stocks performed strongly in Tokyo yesterday in an otherwise falling market as giant-capital and domestic demand-related issues weakened, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average shed 137.83 points to end at 25,756.44 after gaining 91 at one point in the morning. Turnover dwindled from last Friday's 1.32bn to 796.06m shares. Declines led advances by 521 to 423, with 109 issues unchanged.

The lack of fresh market-moving factors and growing concern over precariously high prices combined to push many investors to the sidelines, brokers said.

Export-led high-technology stocks remained the session's best performers aided by the dollar's surge to above Y144 on the Tokyo foreign exchange market.

Sony added Y180 to Y3,880 in trade of 9.01m shares and strong buying which led the Tokyo Stock Exchange to suspend trading temporarily to restore market order. Matsushita Electric Industrial, with 16.80m shares traded, strengthened Y110 to Y2,060.

Among other internationally popular issues, Konishiroku Photo Industry firmed Y50 to Y790 on volume of 21.01m shares. The rise followed investor appraisal of the change of its corporate name to Knomica Corp, scheduled for October. Hitachi stiffened Y30 to Y1,130.

The strength of these blue-chips stemmed from buying by investment trusts and non-residents, traders said. One analyst at a big securities company said a consensus was being formed that high-technology stocks would lead the market for some months.

Stocks in other sectors generally slumped with more investors selling large-capital and domestic demand-stocks issues to buy blue-chips.

Large-capitals fell widely. Kawasaki Steel, the busiest with 47.35m shares traded, shed Y11 to Y269, Nippon Steel, second with 42.47m shares, Y8 to Y361, Sumitomo Metal Industries Y5 to Y242 and Mitsubishi Heavy Industries Y11 to Y600.

Domestic demand-linked issues also slackened, with Kajima Corp and Taisei Corp slipping Y50 each to Y1,930 and Y1.180.

Biotechnology-related stocks also eased: Ajinomoto and Takeda Chemical dropped Y30 each to Y3,530 to Y3,350.

Bonds moved widely, with the yield on the benchmark 5.1 per cent 10-year government bond due in June 1996 rising from 2.855 to 2.865 per cent in block trading on the Tokyo Stock Exchange after opening at 2.830 per cent. The yield later gained further to 2.890 per cent in inter-dealer trading.

AUSTRALIA

THE FALL in the world bullion price pushed Sydney gold and resources stocks lower, taking most industrials with them, in very subdued trading.

The All Ordinaries index shed 9.2 points to 1,818.5 while the gold index fell 56.4 to 3,089.9.

Among golds, GMK was steady at A$10.25 following last week's takeover offer by North Kalgurli, Mr Alan Bond's company. Western Mining, which is selling its GMK stake, lost 18 cents to A$6.92.

Among limited gains in the industrial sector, Pacific Dunlop rose 33 cents to A$5.06, Bell Group 12 cents to A$8.36

Hong Kong was closed for a holiday.

SINGAPORE

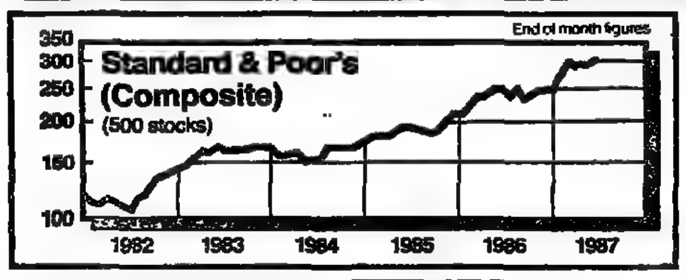
THE WEAK trend persisted in Singapore as institutions stayed out of the market and other investors continued to take profits. The Straits Times industrial index fell back 10.77 to 1,216.36. Turnover was little changed from Friday at 42m shares.

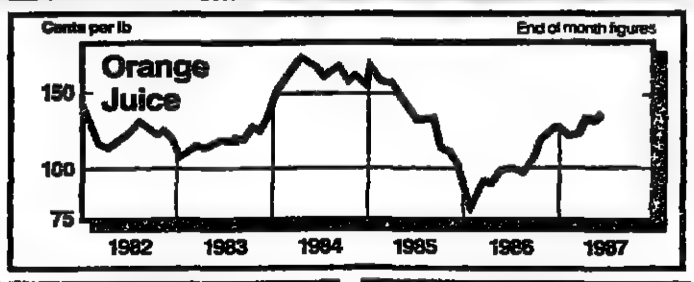
Speculation, later confirmed, about the release of more government-held Singapore Airlines shares helped to dampen sentiment, as did news of a placement abroad of MMC shares.

A few blue chips gained, with Singapore Airlines adding 10 cents to S$13.30

Singapore Airlines shares to be floated, Page 38

KEY MARKET MONITORS





STOCK MARKET INDICES

	June 15	Prev	Year ago
NEW YORK			
DJ Industrials	2,391.54	2,377.73	1,874.19
DJ Transport	1,021.11	1,029.53	786.50
DJ Utilities	203.71	203.77	187.69
S&P Comp.	303.14	301 62	245 72
LONDON FT			
Ord	1,786.6	1,767.9	1,318.6
SE 100	2,307.6	2,289.5	1,582.40
A All-share	1,149.72	1,138.39	787.19
A 500	1,281.89	1,271 57	869.89
Gold mines	388 1	409 3	196.2
A Long gilt	8.89	8.76	9.39
World Act. Ind	134.95	134 93	91.08
(June 12)			
TOKYO			
Nikkei	25,756 44	25,894.27	17,208.0
Tokyo SE	2,241 08	2,255.67	1,327.79
AUSTRALIA			
All Ord.	1,818.4	1,827 7	1,216.3
Metals & Mins.	1,122.4	1,139.8	536.3
AUSTRIA			
Credit Aktien	183.60	184.03	241.86
BELGIAN SE			
	4,653.30	4,640.52	3,513.21
CANADA			
Toronto			
Met.& Mins.	2,871.3*	2,901 19	2,216
Composite	3,716.5*	3,725.50	3,089.0
Montreal			
Portfolio	1,867.20*	1,865.69	1,567.30
DENMARK SE			
SE	n/a	207.80	224.11
FRANCE			
CAC Gen	n/a	409.7	344.7
Ind. Tendance	104 10	102.5	81.29
WEST GERMANY			
FAZ-Aktien	591.65	582.85	686.58
Commerzbank	1,783.60	1,756.0	2,016.1
HONG KONG Hang Seng			
	3,129.88	3,129.88	1,765.65
ITALY Banca Comm.			
	700.55	697.78	708.36
NETHERLANDS AMP CBS			
Gen	295.10	289.9	287.8
Ind	247.60	243.7	282.3
NORWAY Oslo SE			
	433.40	432.04	350.01
SINGAPORE Straits Times			
	1,216.30	1,227.04	696.12
SOUTH AFRICA JSE			
Golds	—	2,161.0	1,226.5
Industrials	—	1,898.0	1,130.9
SPAIN Madrid SE			
	229.27	227.33	172.71
SWEDEN J & P			
	n/a	2,678.14	2,394.49
SWITZERLAND Swiss Bank Ind			
	n/a	582.3	559.8

COMMODITIES (London)

	June 15	Prev
Silver (spot fixing)	457.80p	475.35p
Copper (cash)	£975.0	£964.50
Coffee (July)	£1,301.50	£1,294.00
Oil (Brent Blend)	$18.775	$18.725

GOLD ($/oz)

	June 15	Prev
London	$449.75	$456.00
Zürich	$449.75	$458.25
Paris (fixing)	$449.95	$459.34
Luxembourg	$450.40	$461.60
New York (August)	$456.70	$458.90

CURRENCIES (London)

	US DOLLAR June 15	US DOLLAR Previous	STERLING June 15	STERLING Previous
$	–	–	1.6320	1.6520
DM	1.8245	1.8115	2.9775	2.9925
Yen	144.75	143.80	236.25	237.50
FFr	6.0900	6.0475	9.9375	9.9900
SFr	1.5130	1.5000	2.4700	2.4775
Fl	2.0555	2.0390	3.3550	3.3675
Lira	1,319	1,312	2,152.5	2,167
BFr	37.85	37.55	61.75	62.05
C$	1.3410	1.3395	2.2000	2.2135

INTEREST RATES

	June 15	Prev
Euro-currencies (3-month offered rate)		
£	8¹³⁄₁₆	8⅝
SFr	3¹³⁄₁₆	3¹⁵⁄₁₆
DM	3⅞	3¹¹⁄₁₆
FFr	8⅝	3⅝
FT London Interbank fixing (offered rate)		
3-month US$	7⅛	7⅜
6-month US$	7⁹⁄₁₆	7½
US Fed Funds	6¹³⁄₁₆*	6⅝
US 3-month CDs	6.75*	7.075
US 3-month T-bills	5.63*	5.72

FINANCIAL FUTURES

	Latest	High	Low	Prev
CHICAGO				
US Treasury Bonds (CBT) 8% 32nds of 100%				
June 15				
(June)	93–12	94–04	93–09	93–17
US Treasury Bills (IMM) $1m points of 100%				
(Sept)	93.86	93.96	93.85	93.88
Certificates of Deposit (IMM) $1m points of 100%				
(June)	n/a	n/a	n/a	93.29
LONDON				
Three-month Eurodollar $1m points of 100%				
(June)	92.89	92.90	92.88	92.87
20-year National Gilt £50,000 32nds of 100%				
(June)	125–24	127–00	125–24	127–17

US BONDS

Treasury

	June 15 Price	June 15 Yield	Prev Price	Prev Yield
7¼ 1989	100³⁄₃₂	7.47	100¹⁄₃₂	7.63
7 1994	93¹⁹⁄₃₂	8.18	92²⁵⁄₃₂	8.315
8½ 1997	101⁷⁄₃₂	8.334	99²⁵⁄₃₂	8.517
8¾ 2017	102²⁹⁄₃₂	8.505	100¹⁹⁄₃₂	8.683

Source: Harris Trust Savings Bank

Treasury Index

Maturity (years)	Return index June 15	Day's change	Yield	Day's change
1–30	163.17	+0.23	6.93	−0.03
1–10	154 63	+0.12	6.66	−0.03
1– 3	144.03	+0.07	6.37	−0.03
3– 5	157.57	+0.17	6.71	−0.03
15–30	193.58	+0.59	7.78	−0.03

Source: Merrill Lynch

Corporate

	June 15 Price	June 15 Yield	Prev Price	Prev Yield
AT & T 3⅞ July 1990	93.41	6.30	93.26	6.35
SCBT South Central 10⅞ Jan 1993	103	10.16	102.25	10.34
Phibro Sal 8 April 1996	92	9.35	91 43	9.45
TRW 8⅜ March 1996	97.44	9.18	96.45	9.35
Arco 9¾ March 2016	104.66	9.40	100 69	9.08
General Motors 8⅛ April 2016	86.07	9.55	84.80	9.70
Citicorp 9⅞ March 2016	93.66	10.05	91.07	10.35

Source: Salomon Brothers

* Latest available figures

SECTION III

FINANCIAL TIMES

SURVEY

The financial world, sustained by the bull market of a lifetime, has rarely been so resilient to bad news, observes **Anatole Kaletsky,** who offers three sets of explanations. Even investors who harbour misgivings hope for one more great rally before the ultimate retreat.

Under the volcano

THE US financial community is dancing on a volcano. To look at the performance of the financial markets, and the prosperity of people who depend on them for their livelihood, the last 12 months have been a true *annus mirabilis.*

By every indicator one cares to mention, records have been beaten, history rewritten and traditional assumptions overturned.

The stock market has soared beyond the wildest expectations. Trading volumes have advanced still farther. Billion-dollar mergers and buy-outs have proliferated, generating for brokers and investment bankers rewards beyond the dreams of avarice.

From a broader economic viewpoint, financial markets have risen to a prominence they have not known for 50 years. This is reflected not only in their contribution to the gross national product, but also in their dominance over the wider financial services industry, and in the decisive sway that financiers now enjoy over all other actors in the economic drama.

Today the whole of the financial service industry depends on the markets as never before. It is not just the stockbrokers and bond dealers who owe their prosperity to booming markets in financial assets. Commercial banks are trying desperately to generate fee incomes and turn many of their traditional lending businesses into new forms of "securitised" loan trading.

They are investing billions in expanding their securities businesses overseas, free of the restraints of US banking legislation. At home, they are lending mind-boggling sums in support of mergers and leveraged buy-outs. Such loans are frequently collateralised by nothing more substantial than the money which the newly formed companies hope they can make by selling off subsidiaries at high values in the bull market for corporate assets.

Traditionally staider institutions, like thrifts and insurance companies, are gradually becoming just as exposed as the commercial banks, both to the risks and the rewards of speculative asset trading. For the insurance companies, the boom in their investment profits, combined with the high returns available in the junk bond market, has helped to reinforce a sharp improvement in the underwriting cycle.

For some thrifts, successful junk bond investment, has made it possible to survive and even expand at a time when margins on traditional fixed-interest home mortgage lending are squeezed almost to vanishing point. Even the top investment banks, which have been trying to diversify their operations away from straight securities trading, may well have actually exposed themselves to market movements more than ever.

It is not just their trading systems are vulnerable to sudden shifts in market prices, as evidenced in the mind-boggling losses suffered by Merrill Lynch in the mortgage-backed market. More fundamentally, even the much-vaunted mergers and acquisitions departments, which have become the front line of the whole investment banking business, are ultimately a play on equity prices.

Without a booming stockmarket, it is unlikely that the pace of mergers could be sustained. And it is all too probable that many of the restructurings would themselves unravel if a collapse in the stockmarket undermined the bullish assumptions about asset values on which their financing was based. As long as stock prices go on rising, however, there seems to be no end in sight to the unprecedented prosperity throughout the financial service industry. . . .

Yet what is more surprising than the prosperity itself is the political and economic background against which the financial sector's fortunes have been advancing. Stock prices have exploded, brokers have made their millions, and pyramids of debt have soared ever-higher, at a time when the world outside the dealing rooms has become more dangerous, uncertain, and even hostile.

Rarely has the financial world been buffeted by quite so many stocks in such a brief time. More rarely still has it proved so resilient to bad news of every type. The orderly retreat of the dollar that started in 1985 has turned into a rout. Oil prices have returned to an upward path, and inflation is accelerating. The pressures of inflation may still be relatively modest, but this spring the bond market was suddenly seized with the conviction that the low point in the present cycle of interest rates and inflation was now past.

In Washington, the Reagan presidency has been crippled by the Irangate crisis, protectionism threatens, and decisive action on the US fiscal problem looks like a lost cause.

At a more parochial level there has, of course, been the insider trading scandal radiating out of Mr Ivan Boesky's determination to take the "risk" out of risk arbitrage. With the subsequent confession of Mr Martin Siegel, a widely respected and extraordinarily well-connected figure from the blue-blooded house of Kidder Peabody, it rapidly became apparent that nobody on Wall Street could be assumed untainted or immune.

Then there have been the bombshells on the Third World debt front. Brazil's suspension of interest payments in February was by far the biggest gauntlet thrown down by any debtor nation since the crisis first broke five years ago. But the real shocks came last month, when Citicorp took Brazil's action to its logical conclusion. By adding $3bn to its loss reserves, Citicorp effectively reduced the value of its $15bn Third World loan portfolio to 70 cents on the dollar, faced up to the biggest loss in US banking history, and wiped out more than a quarter of shareholders' equity in one day.

What was the markets' reaction to this second debt shock? To bid up bank shares to their highest level since last summer, and to continue challenging new records in almost every subsequent week.

Soon afterwards, on June 2, just when it seemed as if the wellsprings of bad news had finally dried up, there came the biggest blow of all. Mr Paul Volcker, the chairman of the Federal Reserve Board—the man financial markets had turned into a demi-god in their mythology, an Atlas bearing the whole weight of responsibility for managing the world economy on his enormous hunched shoulders—declared that he would leave his job.

While Dr Alan Greenspan is as well qualified as anyone to take on the succession, for many of the market operators who learnt their trade in the great secular disinflation that began with Mr Volcker's arrival at the Fed in 1979, it will take months to come to terms with a post-Volcker world. Indeed, Mr Volcker's departure could well turn out to be the shock required to blow away the bubble of euphoria which has been keeping the financial markets so comfortably insulated from the unsettling world outside.

Yet even on the day of the Fed announcement, it took less than an hour for the US stock market to shake off the panic which had seized bond and currency dealers. Perhaps, then, the financial community has sound reasons for its indifference to all bad news. These reasons can be grouped into three broad sets of arguments.

First, the economic outlook continues to be reasonably healthy. Signs of incipient inflation remain quite limited; the fall in the dollar has on balance been an extremely healthy development: and the growth of the economy continues at a moderate but steady pace.

Second, even the worldwide economic slowdown since 1984 has been of benefit to the financial markets and the industries which depend on them. While powerful monetary expansion has continued around the world, there has been a sharp reduction in both commodity prices and real investment. As a result, the monetary growth has been channelled almost entirely into the booming financial markets.

Third, the falling dollar has been doubly bullish for financial markets. It has provided a substantial boost to corporate profits—so much so, in fact, that Mr David Hale, of Kemper Financial Services, has argued that even incipient inflation can be interpreted as a bullish sign, for this time round inflation is being pushed by higher profit margins, not rising wages.

At the same time, the depreciating dollar has made US stocks and corporate assets cheap compared with companies in other countries. This has encouraged large foreign investment inflows into the stockmarket, despite the disenchantment with US bonds in Japan and elsewhere.

How well do such arguments stand up against the bleak and uncertain background of world economic and political developments? In their minds, many investors unquestionably harbour deep misgivings. Sooner or later, they recognise, a world recession will deliver a mortal blow to the "bull market of a lifetime" and bring down with it much of the glossy superstructure of the financial services industry.

But in investors' hearts there is always the hope of one more great rally before the ultimate retreat. At present, the intellect is over-ruled by the passion—and the festivities can continue as the volcano sputters and flames.

At the Fed, Dr Alan Greenspan (*front*) succeeds Paul Volcker, a man who has achieved almost demi-god status in the financial markets. Although the stock market adjusted within an hour, the financial world may need longer.

CONTENTS

Statistics compiled by Rivka Nachoma

The economy

Hurdles on the election trail

IN OCTOBER of this year the US economy could enter its sixth consecutive year of uninterrupted expansion, the longest unbroken economic upswing in the post-war period.

Ignoring the structural economic weakness that his policies have helped to create, in particular the huge trade and budget deficits, President Reagan is already claiming the credit in advance for this achievement. Whether, in fact, the economic outlook in October will look as rosy as the President, his advisers and the Republican party would wish hangs very much in the balance.

On Wall Street investors in ordinary shares are still clinging to the conviction that the US economy will indeed this year avoid the recession which a minority of private economists believe is fast approaching.

The bond markets have been taking the same view. But investors in fixed interest securities have been paying more attention to the economic problems that lie ahead, unnerved by some of the scares they have been subjected to in the opening months of 1987. They recognise that, if Mr Reagan's dream of ending his presidency without a second recession is to be realised, and if the President is to leave a positive economic legacy to those members of his Republican party who will be facing the voters in 1988, some impressive political and economic hurdles will have to be surmounted in the months ahead.

Just how precariously the US economy is poised has been evident in the past six months. Although the past two quarters have seen positive economic growth—indeed, the first quarter saw the economy expand at a real annual rate of just under 4.5 per cent—this is largely because of an upswing in stockbuilding and a long overdue, but nevertheless welcome, improvement in the real foreign trade deficit.

The other key components driving the economy have been disturbingly weak, however. Consumer demand fell in each of the last two quarters, a rare development when there is no recession; capital investment is sluggish; and fiscal policy is, on balance, probably restrictive.

To this discouraging mixture a number of new negatives have been added in recent weeks. The administration's blunder in imposing trade sanctions on Japan, a country on whom the US relies for much of the capital it needs to finance the economy, helped to drive long-term interest rates up a percentage point or more in April, at a time when an upturn in inflation forced the Federal Reserve Board to tighten credit to defend the dollar and reassure the financial markets.

In the first four months of the year, consumer price inflation ran at an annual rate of 6 per cent, a jump from last year's 1 per cent increase. Interest rates on home loans have now reached levels which are beginning to hurt the housing market.

In spite of these negative developments most private economists continue to believe that the weaknesses which the pessimists are focusing on are transitory, and that another year of sluggish growth of around 2½-3 per cent will be achieved. On this view, the upsurge in inflation at the beginning of the year is transitory, the result in part of increases in energy prices which will soon peter out, and the after-effects of the sharp fall in the dollar in the past two years. If so, for the year as a whole, consumer price inflation will not rise above 4.5 per cent, which is a tolerable level which will not require the Fed to adopt a firmly restrictive monetary policy.

Similarly, economists who project continued growth argue that the recent weakness in consumption and the build-up in inventories were both related, in large part, to a slump in car sales from an artificially high fourth quarter level; and that, as sales pick up, it will not be necessary for the car industry to cut production sharply in a way which, taken with weak housing and stagnant capital investment, might trigger a recession.

Moreover, it is argued the continued improvement in the trade picture in volume terms, while not enough to reduce the merchandise trade deficit in money terms significantly, will continue to provide the economy with some positive momentum.

But even those economists who are convinced that consumer spending will keep the economy moving forward are well aware of the risk that ill-judged decisions could trigger the sort of violent reactions in the financial markets which would send the dollar cascading, interest rates soaring, and tip the US economy into recession.

Sensitivity on this score helps to explain the overwhelming judgment on Wall Street that President Reagan should have tried much harder to persuade Federal Reserve Board chairman Paul Volcker to accept reappointment to a third term. His replacement Dr Alan Greenspan will now be under strong pressure to demonstrate to the financial markets at home and abroad that he too does not intend to let inflation get out of control.

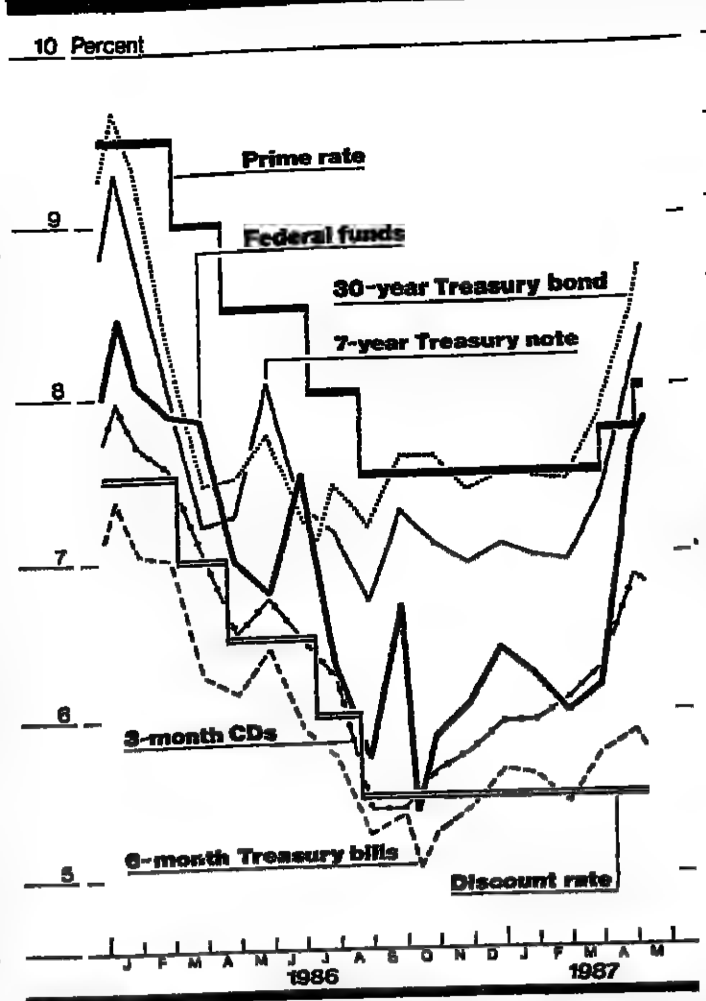
There is also the budget deficit issue to be negotiated. Were the debate over the budget deficit, between Congress and the President, to deteriorate into a stalemate and the prospect of a rise in the deficit in 1988, the financial markets could hardly be expected to respond positively. The same would be true if Congress were indeed to pass a clearly protectionist trade bill.

The dollar's vulnerability to adverse swings in confidence in response to political, as well as economic, developments has been all too evident this year. It is not surprising, given the evidence, that it has required official capital inflows, not private capital flows, to finance the current account deficit in 1987.

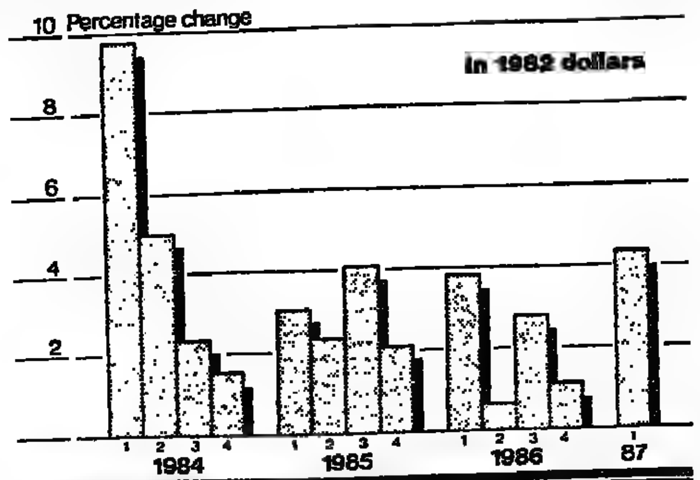
No wonder Republican leaders are worried that the economic backdrop to next year's elections will be unfavourable to their cause.

Stewart Fleming

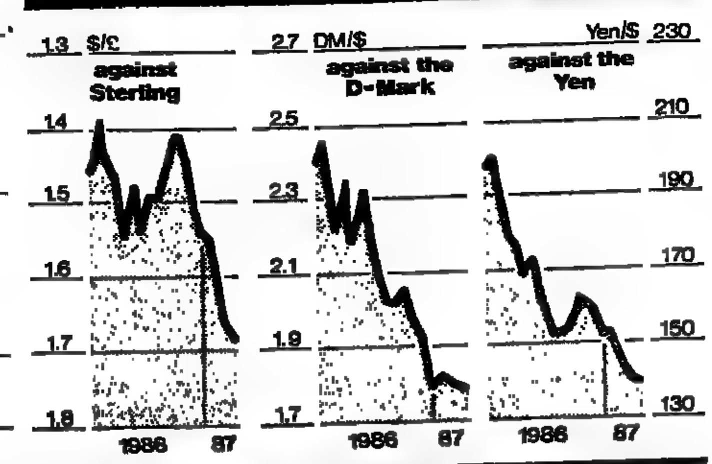
US interest rates

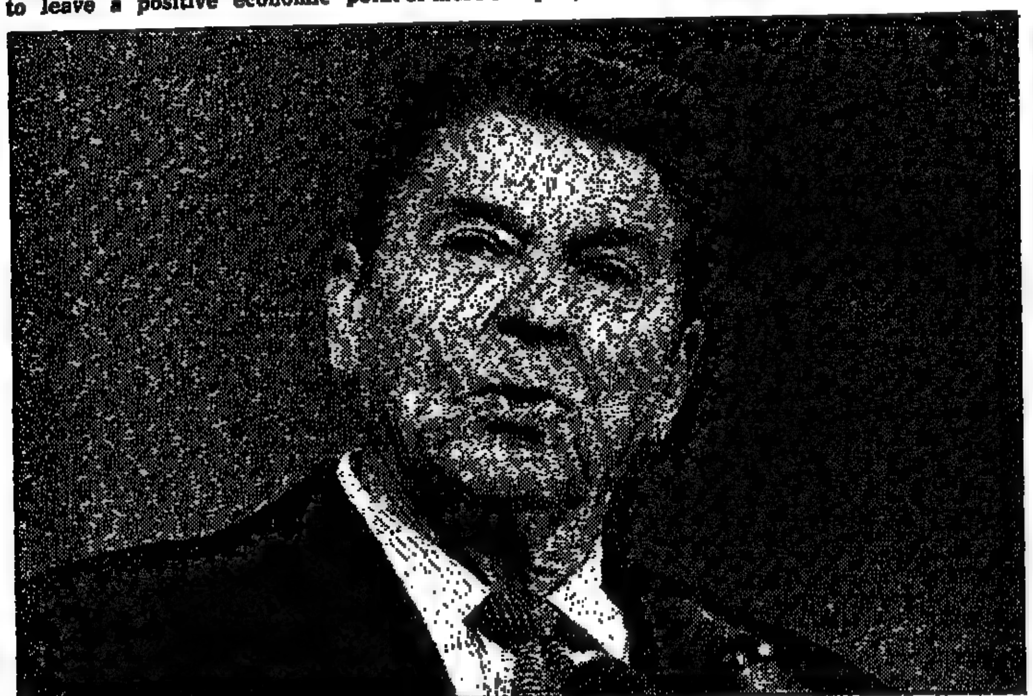


Gross National Product

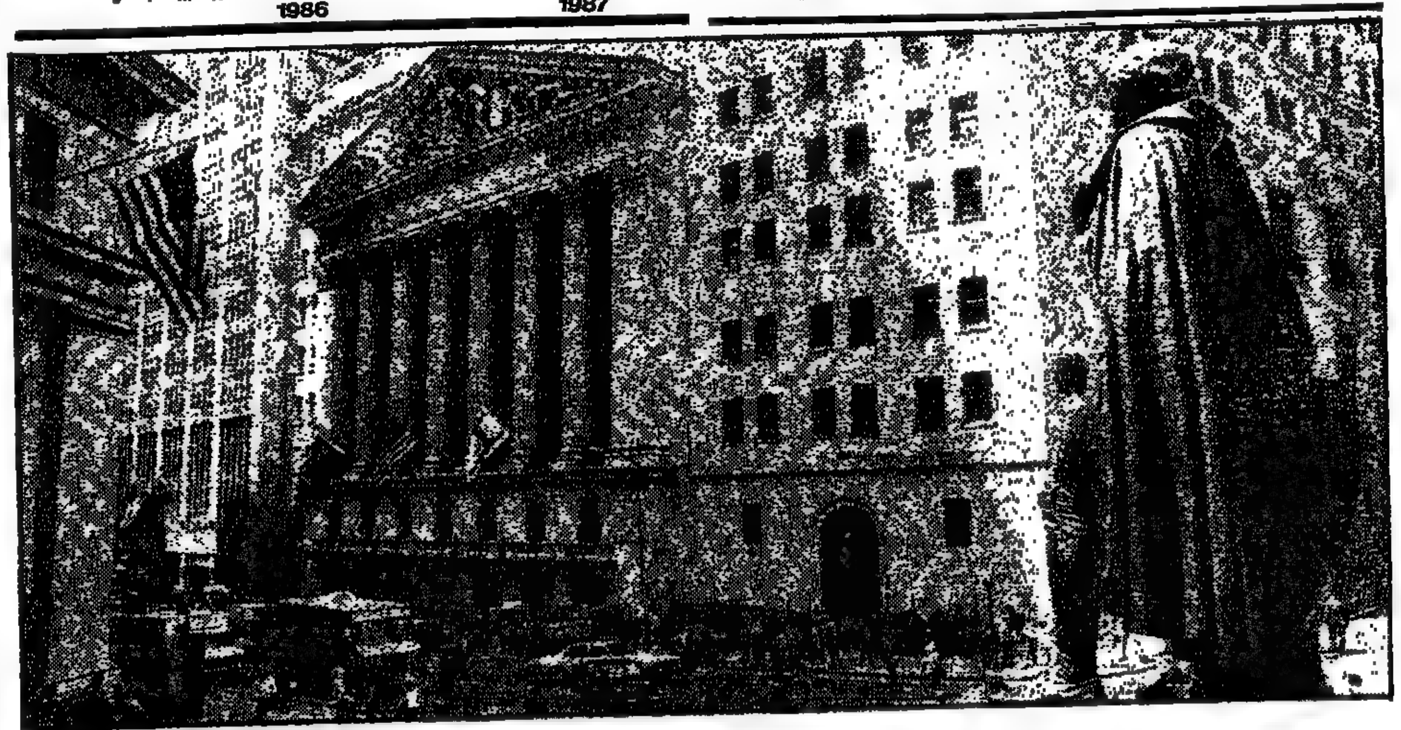


DOLLAR





President Reagan: a dream legacy at stake



On Wall Street they favoured Volcker

Foreign investment

Interest-rate spectre haunts policymakers

FOREIGN INVESTMENT in the US is no longer a subject at the periphery of the debate on US economic and financial policy. The willingness of foreign investors to place funds in the US—or more precisely the returns required to make sure they do so—is now one of the central issues in the economy.

The reason is, of course, that capital inflows into the US are the necessary corollary to the huge trade deficit. In effect, Americans are exchanging short-lived goods from abroad for long-term investments in their own country. It's a process that has been described as "trading office buildings for VCRs," and it's an issue which is likely to become intertwined with the emotional debate now going on in Washington and elsewhere on trade, particularly with the Japanese.

Indeed, in recent months the debate has focused almost entirely on the attitudes of Japan, the world's major surplus country, to investment in US Treasury paper. Will the Japanese allow their concern about the sliding value of the dollar to deter them from major participation at the Treasury auctions? Put another way: will Japanese investors require higher yields to compensate them for their worries about the dollar?

Judging by the recent rise in US interest rates, it seems that the answer to both questions has been "yes." Figures published by the US Federal Reserve show that Japanese purchases of marketable US Treasury notes and bonds dropped sharply in 1986, to $3.92bn from $17.91bn in 1985. In the fourth quarter, they became net sellers, and in December Japanese investors reduced their holdings by $2.09bn.

An increase in foreign purchases of shares took place during 1986, but there is little to suggest that the buyers were Japanese. Total net purchases of shares rose to $18.69bn in 1986, from $4.94bn a year earlier; while holdings of corporate bonds rose, with net purchases of $50.01bn against $44.23bn a year earlier.

According to economists, the more disturbing aspect of the foreign investment picture was that, in 1986, in contrast to 1985, net private capital inflows failed to keep pace with the growing current account deficit. Private capital inflows fell to $82bn from $103bn, with official capital inflows—central bank purchases of dollars in foreign exchange markets—making up the shortfall.

The spectre that interest rates would have to rise to stimulate capital inflows, leading to recession, is thus haunting policy-makers.

The extent to which foreign investors are attracted to investments that are less sensitive to short-term fluctuations in the dollar and US interest rates is therefore also an important question. There is indeed evidence that there was more of this sort of investment in the US during 1986, although there are some signs of a pause in early 1987.

Direct investment, usually in the form of corporate or real estate deals, is generally made for the longer term, and less likely to reverse because of adverse financial conditions. The key question being asked by followers of both these markets again concerns Japanese involvement.

Foreign acquisition of US corporations increased substantially last year. UK firms alone were said to have made some $13.5bn in acquisitions, against some $5bn in 1985. Investment bankers report that Japanese takeovers did increase last year, but not so sharply as the foreign takeovers did overall. Increased inquiry has come from Japan this year, thanks partly to major marketing efforts by US investment banks.

Mr Steven M. Looney, senior vice-president of investment banking at Nomura Securities International, in New York, says: "A lot more opportunities are being shown to the Japanese by all kinds of intermediaries. The Japanese are becoming more receptive, bt I don't see the flood of deals that some people are predicting."

For many Japanese companies, the process of starting from a greenfield site is still the most attractive route for establishing an operation in the US, which is by far their most important foreign market. But many companes are now said to be concerned that time to do this is running short, because of deteriorating trade relations, leading them to consider corporate acquisitions as the most efficient way to establish a US presence. The urgency is overlaid by a fear that a declining dollar will soon price Japanese goods out of the US market, unless exporters establish a relatively low-cost manufacturing base in the US.

Investment bankers say the Japanese are unlikely to lose their reputation for caution as they step up takeover activity. The US phenomenon of takeovers for purely financial reasons is unknown in Japan, and most acquisitions will be for strategic commercial motives. Hostile takeovers are not the Japanese style either.

Mr Richard Strickland, of Morgan Stanley, says: "The Japanese do not feel they have excess management capacity." This, and concern about potential social and other frictions, means that Japanese companies are more and more likely to leave American management in place.

The Japanese will also shy away from depressed industries, or ones where they are likely to meet entrenched problems such as difficult labour relations, bankers say.

Mr Roger W. Miller, of Salomon Brothers, also says the Japanese are showing concern at recent governmental obstacles placed in the way of recent merger moves—a factor that he and others think will slow the pace of Japanese direct investment. Fujitsu's eventually-abandoned attempt to take 80 per cent of Fairchild Semiconductor from Schlumberger and a number of rulings in the financial services area mean that, in these areas at least, Japanese companies will tread even more warily.

"The process of acquisition is hard enough without introducing the element of political friction. But the effects of this are likely to be restricted to a few areas, such as defence and finance, where the powers of the government are fairly broad," says Nomura's Mr Looney. "I do not see it extending to every nook and cranny of the economy."

Much publicity has been given over the past year to Japanese investment in major real estate projects in large US cities. Certainly, according to Simon Mildé, of the property agency Jones Lang Wootton, "foreign investment is probably a bigger force in this market than it has ever been."

Overbuilding in many areas of the US, the economic downturn in South America, and the crash in oil prices, have made many areas unattractive for foreigners. But in prime commercial properties in five or six major cities—Boston, New York, Washington, Philadelphia, Los Angeles and now Chicago—foreign buyers, led by the Japanese, predominate. "Taking the five major cities and looking back over the past year, I cannot think of any prime investment property, apart from developments or refurbishments, that has not been sold to a foreign entity," says Mr Mildé.

Mr David G. Shulman, of Salomon Brothers, estimates that Japanese investors placed $4bn in this market during 1986. That brought their total holdings to a mere $5.5bn, he estimates, with a further $3bn in development and construction projects.

The move by the Japanese, who are willing to accept lower yields than their US counterparts, has broadened the price gap between prime and second-tier properties, a fact which, says Mr Richard Geraghty, of Cushman and Wakefield, is encouraging a broader look by foreign investors at the real estate market in the US.

Stephen Fidler

Foreign transactions

Marketable US Treasury bonds and notes ($m)

	1985	1986
Estimated total	29,208	24,060
Foreign countries	28,768	25,210
Europe	4,303	16,996
Belgium-Luxembourg	476	343
Germany	1,917	7,649
Netherlands	269	1,283
Sweden	976	132
Switzerland	773	310
UK	(1,810)	4,668
Other western Europe	1,701	2,611
Canada	(188)	874
Latin America & Caribbean	4,315	903
Venezuela	248	(69)
Other Latin America & Caribbean	2,336	1,131
Netherlands Antilles	1,731	(159)
Asia	19,919	5,238
Japan	17,909	3,916
Africa	112	(54)
All other	308	1,255

* Transactions, net purchases or (sales)

Major 1986/87 foreign takeovers of US companies

Target	Bidder	Country	Price ($m)
Standard Oil (remaining 45%)	British Petroleum	UK	7,700.0
Allied Stores	Campeau	Canada	3,500.0
Cheesbrough-Ponds	Unilever	Anglo-Dutch	3,093.0
Celanese	Hoechst	West Germany	2,867.0
ITT's Telecom-Equipment Div	Cie Generale d'Electricite	France	2,000.0
Harcourt Brace Jovanovich (a)	British Printing & Comm.	UK	1,730.0
RJ Reynold's Heublein	Grand Metropolitan	UK	1,200.0
Big Three Industries	L'Air Liquide	France	1,062.0
White Consolidated	Electrolux	Sweden	743.0
Mobil's Container Corp(b)	Jefferson Smurfit	Ireland	700.0
Squibb's Charles of the Ritz	Yves St Laurent	France	631.0
CPC's European Starch Interest	Ferruzzi	Italy	600.0
Jackson National Life Insurance	Prudential Corp	UK	597.0
Glidden Paints	ICI	UK	580.0
Union Carbide's Agri-Chem. Div.	Rhone Poulenc	France	575.0
Robertshaw Controls	Siebe	UK	558.0
Baxter Travenol's Flint Unit	Boots America	UK	555.0
Ralston Purina's Animal Feed Business	British Petroleum	UK	545.0
Shearson Lehman 13%	Nippon Life	Japan	530.0
Honeywell Info Systems (57.5%)	Bull & Nec	France & Japan	527.0

(a) Pending.
(b) Buyer is a holding company owned 50/50 by Jefferson Smurfit and Morgan Stanley.

Foreign acquisitions of US companies

	Total transactions	Transactions valued at $100m or more	Transactions valued at $1bn or more	Total value paid ($bn)	Base*
1975	184	2	—	1.6	84
1976	178	5	—	2.4	87
1977	162	3	—	3.1	92
1978	199	17	—	6.3	134
1979	236	11	—	5.8	142
1980	187	22	—	7.1	110
1981	234	24	4	18.8	126
1982	154	15	—	5.1	81
1983	125	10	1	5.9	59
1984	151	23	2	15.1	85
1985	197	21	3	10.9	80
1986	264	51	3	24.5	156

* Base: Number of transactions disclosing purchase price.

Source W. T. Grimm & Co.

Foreign investment in US stocks ($m)

	1985	1986
Foreign purchases	81,995	148,073
Foreign sales	77,054	129,382
Net purchases or (sales)	4,941	18,690
Foreign countries	4,857	18,898
Europe	2,057	9,567
France	(438)	462
Germany	730	341
Netherlands	(123)	936
Switzerland	(75)	1,580
UK	1,665	4,832
Canada	356	796
Latin America & Caribbean	1,718	3,027
Middle East	238	975
Other Asia	296	3,864
Africa	24	297
Other countries	168	373

Foreign purchase of US bonds ($m)

	1985	1986
Foreign purchases	86,587	122,607
Foreign sales	42,455	71,783
Net purchases or (sales)	44,132	50,824
Foreign countries	44,227	50,007
Europe	40,047	39,274
France	210	388
Germany	2,001	(251)
Netherlands	222	387
Switzerland	3,987	4,529
UK	32,762	33,865
Canada	190	548
Latin America & Caribbean	498	1,468
Middle East	(2,648)	(2,951)
Other Asia	6,091	11,537
Africa	11	18
Other countries	38	114

Equities and stock exchanges

Cautious investors see portents of a reversal

A DEGREE of nervousness has surfaced among investors since US stock markets abruptly went off the boil at the beginning of April. But the fact remains that equities have performed spectacularly well so far this year, in both value and volume and in new issue terms.

Given the markets' heady performance, analysts are more reluctant than usual to forecast what happens next. Pressed for a prognosis, most suggest that *equities have notched up the* bulk of their gains for this year and that *only* modest further rises can be expected. Few forecast an abrupt reversal, because their earlier attempts to pinpoint the downward turn were regularly confounded by stock markets' ability to absorb bad news such as surging *interest* rates and the collapse of the *dollar and bond markets.*

The rally started explosively at the turn of the year, once investors had completed a wave of tax-reform selling or shuffling of assets. Market indices rose like *rockets* in January as investors piled into stocks. The popular, but disputable, theory *then was that stocks were the* only game in town, because bond prices *had stuck on a high* plateau and low inflation minimised the attractiveness of other forms of investment.

Foreigners were in the thick of the buying as some of their home markets turned sour, in the case of West Germany, or very highly priced, in the case of Japan. In fact, several Japanese securities houses are forecas*ting that Japanese investors* will buy $20bn of US equities this *year against only* $7bn in 1986. In total last year, foreign investors made net purchases of $18.6bn of US equities against $4.9bn in 1985.

Mutual funds

	New sales* ($bn)	Revenues ($m)
1980	4.5	104.7
1981	4.6	122.0
1982	6.8	287.5
1983	20.8	952.1
1984	16.5	750.9
1985	76.3	1,642.8
1986	152.1	2,801.1

* New sales are for equity and balance oriented mutual funds compiled by The Investment Company Institute.

This year's upsurge is notable for its all-encompassing *breadth, with most major mea*sures showing gains of around *25 per cent* in the *first* three months. The Dow Jones Industrial Average peaked at the beginning of April at a gain of 27 per cent, but fell back to only a 20 per cent rise by mid-May. The Standard & Poor's 500 was up 25 per cent (19 per cent), the Amer*ican Stock Exchange Composite 30 per cent* (26 per cent), and the Nasdaq over-the-counter com*posite up 26 per cent* (20 per cent).

Last year's bull market was concentrated in the cream of the blue chips, with secondary stocks and those trading over the counter lagging badly. Thus, for example, the Dow Jones Industrial Average rose 22.5 per cent last year, while the S & P 500 added 14.6 per cent, the ASE composite 6.9 per cent and the Nasdaq Composite 7.3 per cent.

Some of the best performing sectors last year were tobaccos (up 55 per cent despite declining sales and a wave of cancer victim law suits), pollution control equipment (up 52 per cent), metal and glass containers (up 51 per cent), paper containers (up 45 per cent) and drugs (up 35 per cent).

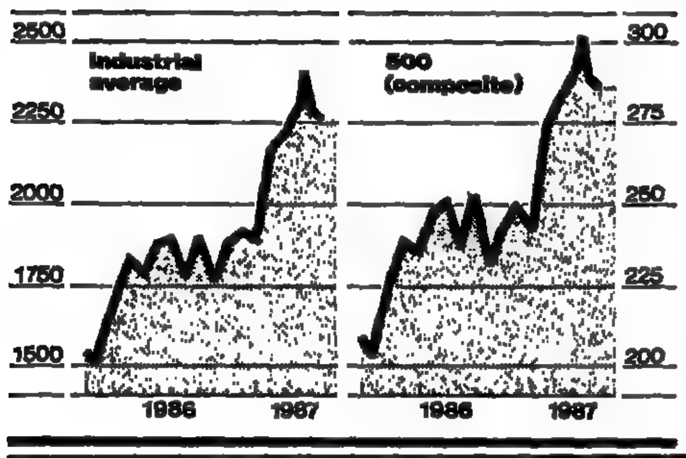
Out of the ranks of last year's worst performers came some of this year's leaders, such as computer, business equipment and communications equipment *manufacturers and semiconduc*tor and steel stocks. Rotation of *leadership* and a *search for* stocks that are relatively cheap compared with the whole market is a better explanation of their current favour with investors than any fundamental improvement in their outlook.

Other laggards last year are long-term casualties, however. *Offshore drillers*, racked by *low* oil prices, suffered a 56 per cent *decline* in value last year. Hospital management companies, squeezed by over-capacity and ever-more cost-conscious insurers, fell 21 per cent.

Generally, though, a brighter earnings outlook for the bulk of US companies has helped to fuel this year's rally. Earlier *forecasts of a profits rise* of about 5 per cent were quickly overtaken by sparkling *first* quarter results *that showed* earnings *growth* of about 15 to 18 per cent. This has helped restore a little credibility to price/earnings ratios in the stock market, which have zoomed up to about record levels of around 20 to 1.

A flood of stock offerings last year and this have given investors plenty of scope *for* new targets, and more than made up *for the stocks lost through* takeovers and share buy-backs. Last year saw a record 955 new issues, worth $25.8bn, which smashed the previous record of 863m issues, worth $12.6bn set in 1983. The leading underwriters were Merrill Lynch (2.3bn), Goldman Sachs ($1.7bn) and Drexel Burnham Lambert ($1.6bn). The pace hotted up in the *first* quarter with $11.5bn of new issues, a 32 per cent rise *from* a year earlier.

Dow Jones / Standard & Poors



One sign of the froth on the top of a bull *market* was the upsurge in penny stocks, with 187 issues of less than $1 a share, raising a total $212m last year. Size was no insurance, however, against disappointment. Some of the biggest issues, such as Enley Group and Coca Cola Enterprises, are struggling to stay ahead of their flotation price.

A lot of the spice in last year's markets came from take-overs, *leveraged buy-outs* and *other* forms of corporate restructuring deals, which totalled $275bn, against $235bn a year earlier.

Just for a while, the only game in town

Glyn Genin

Despite making headlines and generating liquidity, which *shareholders could redeploy in* other stocks, these deals *accounted for only a fraction of* last year's gains. Salomon Brothers calculated that only 4.4 percentage points of the S&P 500's 14.6 per cent rise last year was attributable to them. The volume of such deals so far this year is a mere shadow of last year's.

Their activity focused a harsh spotlight on Wall Street, however, as a widening circle of insider traders, arbitrageurs *and other parties involved* in them were charged following the downfall of Mr Ivan Boesky, the arbitrage king. Investigations, which have a long way to *run yet, are likely to damage* further Wall Street's reputation.

Come August, the bull market will celebrate its fifth anniversary. It is now the longest running ever without serious correction, and investors have become noticeably more cautious *since it backed* down from its peak levels in early April. *Many advisers are* recommending a heavier weighting of cash in portfolios, and selected profit-taking.

A number of *signals* point to the possibility of a sharp reversal *sometime soon. Utilities,* which have always peaked ahead of industrials, are now showing falls from turn of the year levels of around 4 per cent; while industrials are still up about 20 per cent—the ratio of *share price to book value is now* 2.5-to-1 compared, for example, with only 1.64-to-1 when the market peaked in 1973—and dividend yields are at an all-time low of 2.9 per cent.

In structural terms, US stock markets have handled well the *surge of trading activity*, which pushed New York Stock Exchange daily volume up 26 per cent to an average of 185.8m shares in January to April, from 147.4m in the same period a year earlier. The old record for most shares in a day was bettered by a fifth on January 23, when 302.5m shares were crossed.

The burgeoning growth of *programme trades has become a* controversial aspect of stock *market activity, through which* players try to profit from arbitraging between stock index futures and baskets of the underlying shares. The programmes have been blamed for exacerbating the market's rise or fall on those occasional days when investor sentiment takes a dramatic turn.

The Securities and Exchange Commission study found that they were *only a minor* contributing factor in spectacular *days such as last September 11* and 12, but the New York Stock Exchange is not quite so sure and is conducting its own investigations.

Few dispute the value of the rapidly growing use of stock *index futures as a way for inves*tors to buy or sell stakes in the broad market as a holding move, while they go through the time-consuming process of trading blocks of individual stocks.

While the outlook for stock markets is cloudy in investment terms, the view of them as a business continues to look healthy. Innovations in futures and options derivatives of equities, plus globalisation of markets, *appear to auger well. One sign* of the optimism is that a seat on *the New York Stock Exchange* was bought recently for a record $1m.

Roderick Oram

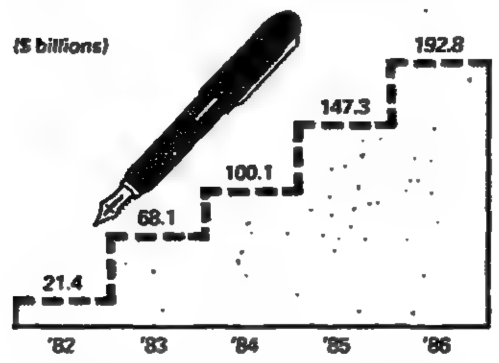
What's behind this new name?

PRIMERICA

One of the most dynamic financial services and specialty retailing firms in the U.S.A.

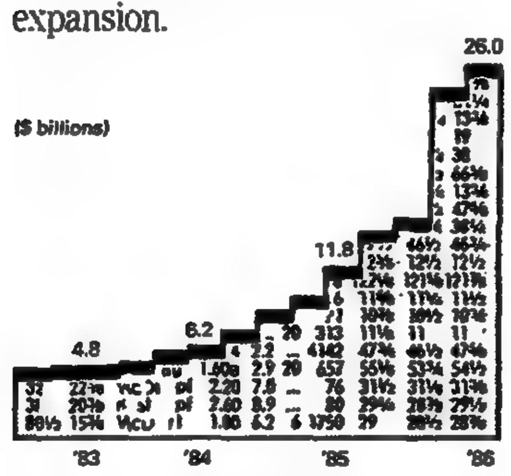
Last year, when American Can sold its packaging business, the 86-year-old name went with it.

We are now Primerica Corporation, following one of the most successful restructurings ever of a major U.S. corporation.



In 1986, life insurance in force of Primerica's insurance subsidiaries rose 31% to $193 billion.

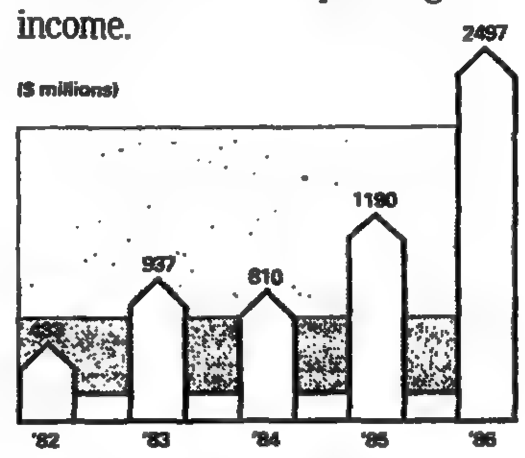
Primerica (pronounced pry-MER-i-ca) is engaged in financial services and specialty retailing, where we have strong market positions, excellent growth potential and the resources to fund our expansion.



Primerica's investment advisory operations more than doubled their assets under management in 1986, to $26 billion, through growth and acquisitions.

We are a company whose earnings have grown substantially for four consecutive years and whose common stock value has more than tripled since 1982.

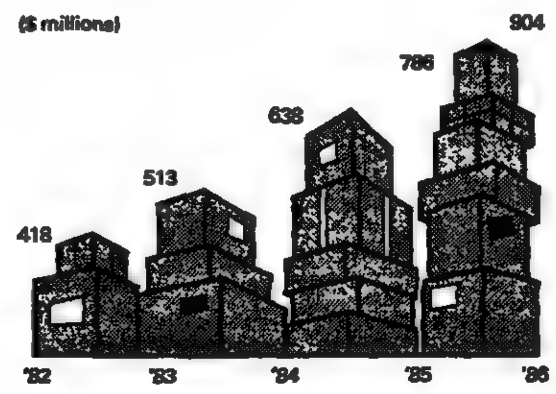
Primerica's Financial Services Sector, providing life insurance, asset management and mortgage banking services, was created in 1982. By 1986 it had grown to $1.5 billion in revenues and $287 million in operating income.



Loan originations of Primerica's mortgage banking unit doubled to $2.5 billion in 1986.

For three straight years, Primerica subsidiaries have sold more face amount of individual life insurance than any other company. Our investment advisory operations more than doubled their assets under management last year through growth and acquisitions. And our mortgage banking subsidiary is one of the nation's largest providers of single family home mortgages, with $2.5 billion in loan originations.

Primerica's Specialty Retailing Sector, consisting of

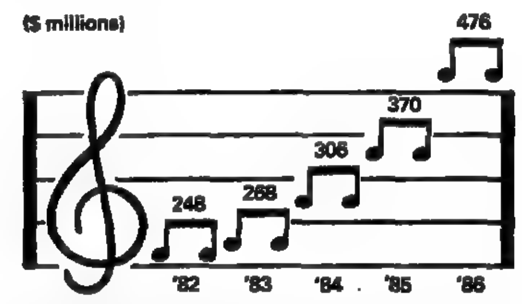


Primerica's revenues from direct mail marketing increased 15% to $904 million in 1986.

direct mail marketing and specialty stores, also achieved impressive results in 1986. Revenues grew to $1.4 billion, and operating income rose to $111 million.

We are one of the largest direct mail marketers in the U.S., growing at a 20 percent annual compound rate—twice the industry average. With more than 525 stores nationwide, we are also the largest retailer of recorded music and audio/video products in the country.

At Primerica there's no such thing as "business as usual." We're continually looking for opportunities to leverage our financial strength and marketing expertise, and to provide rewards for our shareholders. Primerica. A name to remember.



Specialty store revenues were up 29% last year to $476 million, aided by the expansion of The Musicland Group.

PRIMERICA

Primerica Corporation, Greenwich, Connecticut 06836-3610

Financial Services: American Capital Management & Research, Inc.; Berg Enterprises, Inc.; Insurance Marketing Corp. of America (a co-venture); Mass. Indemnity and Life Ins. Co.; Margaretten & Co., Inc.; National Benefit Life Ins. Co.; PennCorp Financial, Inc.; Penn. Life Ins. Co.; RCM Capital Management (a limited partnership); Transport Life Ins. Co.; Triad Life Ins. Corp.; Voyager Group, Inc. **Specialty Retailing:** Current, Inc.; Dunham's Athleisure Corp.; Figi's, Inc.; Fingerhut Corp.; FDC, Inc.; Michigan Bulb Co.; The Musicland Group, Inc.

Securitisation

Why commercial banks look for liberalisation

THE NEW ability of investment banks to create securities out of loans presents the greatest challenge to the established financial order since the Great Depression.

It is a challenge of which many commercial bankers and policymakers have only recently become aware, and with which the current regulatory environment may well be ill-equipped to handle.

"The potential opportunities and difficulties from securitised credit are so great, and the revolution fomenting in the structure of banking is so enormous, that the way we manage the financial part of our economy may become obsolete," says Mr Lowell Bryan, a director of McKinsey and Company, a financial consultancy.

"Depending on how it evolves, securitised credit could rescue our shaky credit system or make it worse," he wrote this year in the Harvard Business Review.

He estimates that about half the debt in the US economy is currently raised through securities, but says the figure could rise to 80 per cent in the next decade, making further significant inroads into traditional bank lending.

What was once the domain of the banks and thrift institutions—business and personal loans—is being taken over by the securities industry.

Some $800m of mortgage-backed securities are already outstanding. Some $12bn of securities have been issued to back car loans, credit card and leasing receivables, a figure which is widely predicted to rise to $100bn in a few years.

These asset-backed securities have allowed issuers to reduce the size of their balance sheet, to improve their liquidity and to pass on credit and funding risks to buyers.

Funding costs have been lowered for many issuers since many receivables, such as those from credit card lending, are often a better risk than the original lender. Thus, Bank of America can only command a BBB rating from the rating agency Standard & Poor's, but the trust it formed in order to securitise its credit card receivables won a prime AAA rating.

For investors, the securities allow them to obtain higher yields without sacrificing credit quality. This higher yield is the investors' compensation for the risk that the bonds may be prepaid. (Since they represent a collection of individual financings, repayment of principal is not predictable with absolute certainty.)

If higher yields and the need for improved performance among fund managers have provided the impetus to growth in securitised credit, computer technology has enabled it to occur. "Analysis of how these securities perform is very software-intensive," says Mr Michael Mortara, head of mortgage securities trading at Salomon Brothers.

The complexity of the deals and the time required to become an issuer seems to have meant, however, that the pace of securitisation has been slower than many expected. "Cost-benefit analysis would say that, unless you are going to be involved in a regular programme, then it is not worth the effort," says Mr John Zacamy, of Morgan Stanley.

Nevertheless, securitisation is causing concern in many areas, not least among the commercial bankers who see themsives shut out of a sector of the financial markets in which they used to predominate by outmoded legislation.

For this reason, the debate over abolition of the Glass-Steagall Act, the legacy of the 1929 Wall Street crash, which separates commercial banks from the securities business, has taken on a new urgency.

The Securities Industries Association, representing the securities firms, remains implacably opposed to a further liberalisation for the commercial banks, but its case has not been helped by the recent insider trading scandals which have plagued its members.

Recent rulings allowing banks to underwrite issues in the rapidly growing commercial paper market are the latest of a series which has led to a gradual erosion of Glass-Steagall, and banks can now deal in an estimated 80 per cent of securities issued in the US. But senior bankers argue that, if the whole of the Glass-Steagall apparatus is not dismantled, US commercial banks are destined to take an ever-shrinking role in the US economy.

The President of Chemical Bank, Mr Thomas S. Johnson, believes that barriers between investment and commercial banking must be broken down. "The only alternative to this is the continuing erosion of commercial bank profitability," he says.

One consequence of this would be that banks would no longer play an important role in the US financial system. More important, with banks out of the running, US securities firms might not be strong enough to compete in worldwide markets, and this would be another area where the US would have to cede economic hegemony to the Japanese.

"This is now an important public policy issue," he says.

Mr Bryan, of McKinsey and Company, agrees. "If you extrapolate the developments of the past few years into the mid-1990s, it is possible to envisage a few investment banks having more power over the economy than anyone since the days of J. P. Morgan."

The potential problem for the conventional lending institutions—the banks and thrifts—is more than a matter of being bypassed by securitisation. It is that the process can undermine their own, in some cases already weak, balance sheets.

For when they securitise their loan portfolios, it is not the worst but the highest-quality loans that are securitised. The nature of asset-backed securities also concentrates their risk, through the process of over-collateralisation.

A $200m issue of packaged credit-card receivable is typically supported by $220m in loans, with the excess to account for bad debts and to ensure credit quality. All bad debts accrue to the extra $20m, to which the bank and only the bank is exposed. "The banks own all the risk and have concentrated it," says Mr Zacamy, of Morgan Stanley.

The process of securitising loans also puts heavy responsibility on the investment banks which are packaging the securities.

When a bank makes a loan and holds it to maturity, it lives with the consequences of a bad or good decision. Under the new regime, a firm is not necessarily exposed to the securities it brings to market. As price competition in the asset-backed securities market heats up, as it almost inevitably will, the likelihood that some firms will try to cut corners will increase the danger of a financial accident, which may put the securitisation process into reverse.

Stephen Fidler

Commercial paper outstanding ($m)

		All issuers	Total financial companies	Total non-financial companies	Total bank-related papers
Jan.	1985	241,813	171,335	70,478	45,183
Feb.	1985	246,232	174,507	71,725	45,024
Mar.	1985	247,603	176,812	70,791	45,638
Apr.	1985	255,913	180,591	75,322	44,585
May	1985	259,253	181,645	77,608	45,421
June	1985	259,571	182,815	76,756	45,505
July	1985	265,863	187,473	78,390	43,310
Aug.	1985	271,857	194,407	77,450	45,082
Sept.	1985	278,386	200,987	77,399	45,557
Oct.	1985	283,464	199,531	83,933	44,647
Nov.	1985	292,023	205,886	86,137	43,459
Dec.	1985	293,909	213,739	80,170	46,380
Jan.	1986	297,704	212,097	85,607	38,828
Feb.	1986	297,423	213,590	83,833	38,423
Mar.	1986	298,885	218,742	80,143	38,361
Apr.	1986	300,309	221,789	78,520	39,355
May	1986	310,364	230,276	80,088	40,584
June	1986	314,598	234,938	79,660	41,715
July	1986	313,976	232,718	81,258	40,839
Aug.	1986	322,648	239,498	83,150	42,204
Sept.	1986	326,967	243,295	83,672	39,435
Oct.	1986	329,955	244,066	85,889	41,129
Nov.	1986	326,536	243,300	83,236	41,241
Dec.	1986	325,948	252,899	73,049	43,125
Jan.	1987	333,719	257,734	75,985	47,370
Feb.	1987	337,325	263,186	74,139	47,896
Mar.	1987	337,133	262,702	74,431	48,749

Asset-backed securities

New instruments need careful thought

Glyn Genin

Salomon Brothers' trading floor: managing director Michael Mortara regards the securitising of mortgages as "software intensive"

LOSSES of $275m made in trading mortgage-backed securities at Merrill Lynch earlier this year have underlined dramatically the extent to which financial innovation has taken the securities market into uncharted territory.

The losses, which trained a spotlight on to a little understood area of the securities market, have called far more into question than the internal controls in one department of a Wall Street firm. Along with the radical reassessment over the last six months of the market in perpetual floating rate notes, the losses are perhaps the most important signal of the dangers of misunderstanding the misvaluing the myriad of new instruments being created by securities firms.

Mortgage-backed securities yield more than Treasury bonds of an equivalent maturity, because investors require a premium to compensate them for the uncertainty surrounding prepayment of the underlying mortgages. When interest rates fall, for example, people refinance their mortgages at lower interest rates, leaving the holder of the mortgage-backed securities the problem of reinvesting the prepaid funds at a lower level of interest rates.

Prepayment risks can be exaggerated when the cash flows from interest and principal repayments are separated. Some $10bn of mortgage securities are estimated to have been split into interest-only (IO) and principal-only (PO) elements.

Merrill had been successful in selling IOs to investors, but had been stacking up the POs on its own book. When interest rates started to climb in March, the value of its PO portfolio, built up apparently unbeknown to senior management, was devastated. The yield spread of POs over the equivalent US Treasury bond widened from 50-75 basis points to 400-500.

"The market view of their value changed and everybody ran for cover," said one senior mortgage securities expert. The problem was worsened for Merrill as the market's liquidity, such as it was, vanished.

The extent of Merrill's losses suggest there was more to the issue than merely guessing the market wrong: there did not appear to be a full understanding of the risks of holding POs.

"Our ability to innovate sometimes exceeds our ability to understand," said Mr John Zacamy, managing director at Morgan Stanley.

Intuition as to the performance of these securities is not a lot of help. Mr Michael Mortara, managing director of Salomon Brothers, calls the whole area of securitising mortgages and other cash flows, such as car loans and credit card receivables, "software intensive." That is for two reasons—one, that underlying all these securities are individuals whose behaviour is occasionally unpredictable; and secondly that the cash flows from these individuals can now be carved up into an almost limitless number of ways.

"Seemingly similar instruments may have radically different performance profiles and intrinsic values," said researchers into mortgage securities at First Boston.

Of the $2.3 trillion (million million) of outstanding residential mortgages in the US, about $540bn, or 23 per cent, have been securitised. Of this, an estimated $75bn have been issued as so-called collateralised mortgage obligations (CMOs). Cash flows from conventional mortgages—called pass-throughs, because investors receive interest and principal in the proportions paid by the mortgagee—are rearranged into different classes. A typical CMO will have four or five tranches, each with different maturities and performance characteristics.

"With the conventional instruments, we weren't hitting the majority of yield curve," said Salomon's Mr Mortara. In other words, most investors do not want long-maturity assets. In a recent development, new tax rules have cleared the way for real estate mortgage investment conduits (REMICs), which allow for active management of cash flows.

The problem with CMOs is that their nature makes them generally illiquid. Probably about 2,000 different CMO classes exist, varying in maturity and underlying collateral. "People should not be buying CMOs as a trading vehicle," said Morgan Stanley's Mr Zacamy.

However, liquidity does not seem to be a problem in a new market which is an offshoot of the mortgage securities business—that in so-called asset-backed securities. Here, cash flows from obligations other than mortgages are packaged as securities. It's a market that Standard and Poors estimates could be worth $100bn in five years' time.

Issuance of these securities was cleared late in 1983 by a ruling from the Financial Accounting Standards Board, known as FASB 77. This permitted, for the first time, an entity to sell assets with recourse, and still treat the transaction as a sale which would remove the assets from its books. Federal regulators would not allow this treatment for banks, an obstacle surmounted later using different methods.

Some $1.2bn of such securities were issued in 1985, rising to $10bn in 1986. In the first quarter of 1987, the pace of issuance had slowed, and only $800m of such securities were issued. In addition, a total of $4.5bn of asset-backed commercial paper

Continued on page 8

Profile: Howard Stein

A musical bear who revels in problems

HOWARD STEIN, the 61-year-old chief executive of the Dreyfus Corporation, one of the biggest and most profitable US mutual fund managers, is a natural bear in an industry which is booming.

He admits to being much happier when there are problems and difficulties in the financial markets. He says that he rather enjoyed the mid-1970s, when the mutual fund industry was collapsing and fashionable investment concepts, such as buying the "nifty fifty" growth shares, were shown to be useless. That was a time when Dreyfus, one of the great names in the US mutual fund industry, could make its mark.

The famous Dreyfus Lion led the mutual fund industry charge into the money market fund business, just as inflation started to take off, and attracted billions of dollars of deposits, much to the chagrin of the highly-regulated US banking industry.

In 1982 Dreyfus bought a small bank and began to apply its own brand of money management to the lending side of the balance sheet with phenomenal success. Profits of the Dreyfus consumer bank have jumped from $182,000 to $6.8m since 1984.

"We have $2m in capital and make over $6m in profit. There is not a bank in the world that makes that sort of profit," says Howard Stein, who, along with men like Fidelity's Ned Johnson and Vanguard's John Bogle, is considered to be one of the doyens of the fastest growing sector of the US financial services industry.

Over the past five years the number of mutual funds has more than doubled, and total assets has risen from under $300bn to well over $800bn. More than $1bn a day of new money is pouring into the industry, and new investment products are proliferating to match the seemingly insatiable demand.

Dreyfus, along with the rest of the industry, has been basking in the meteoric growth. When Howard Stein, who had started out in life studying the violin at New York's famous Julliard School, began managing the original Dreyfus fund in the mid-1950s, it had assets of just $2m. Until 1969, its activities were limited to one fund. Today it employs more than 1,000 staff and has some 90 funds in its money management stable.

Its net income has jumped from $3m 10 years ago to $80.6m last year. Dreyfus has over $500m cash in the bank, manages over $40bn of money for 1½m of mainly small customers, and has a stock market capitalisation of $1.4bn. Its returns on equity, while less than some of its rivals, would make any US money centre bank green with envy.

For an industry which was designed to simplify the investment choices of the small investor, it is ironic that there are now far more mutual funds than there are stocks listed on the New York Stock Exchange. Howard Stein firmly believes that the massive increase in the number of mutual funds is a retrograde step.

"You have all those funds out there, and it has become as complicated for a small investor as picking securities 10 to 15 years ago," says Mr Stein. However, it is clear that his comments are not just altruistic. During the early 1970s Dreyfus was one of the leading fund managers, pushing its funds with "no load" or commission, in order to keep costs to a minimum.

With the proliferation of new and complicated funds, the so-called "load funds," which are sold through brokers who take a commission, have mushroomed. The small investor has found that it is necessary to pay the commissions for help in choosing the right fund, and today around three-quarters of all mutual funds are sold via brokers, whereas the share of "no load" funds has shrunk to a quarter of new sales volume.

As a result, Dreyfus's market share has dropped from 9.2 per cent in 1981 to 5.3 per cent last year; while the share of more aggressive rivals, like Fidelity and Franklin, has risen sharply. Dreyfus has found itself being forced into offering new funds with sales charges, but Howard Stein continues to stress the need for simplicity in the new products that his firm is bringing to market.

He believes that the boom times in the mutual fund industry have attracted a lot of players who are lured by the dream-like profit margins. The general deregulation of the financial services industry has also encouraged new entrants and led to a lowering of general business standards.

"We were an industry that did well when we were regulated. The stronger the regulation, the better for our industry," says Mr Stein, who blames the recent outbreak of insider trading scandals on Wall Street on the government cutbacks that have hurt the surveillance methods of the Securities and Exchange Commission at a time when the volume of business being transacted in the US securities markets was rising faster than ever before.

It is against this sort of background that Mr Stein is pondering Dreyfus's next step. He runs the biggest publicly trade mutual fund manager, and, after raising $200m of new capital last year for no obvious purpose, it is flush with cash and has no debt. Mr Stein is waiting for the inevitable shakeout in the mutual fund industry which will accompany any downturn in the financial markets.

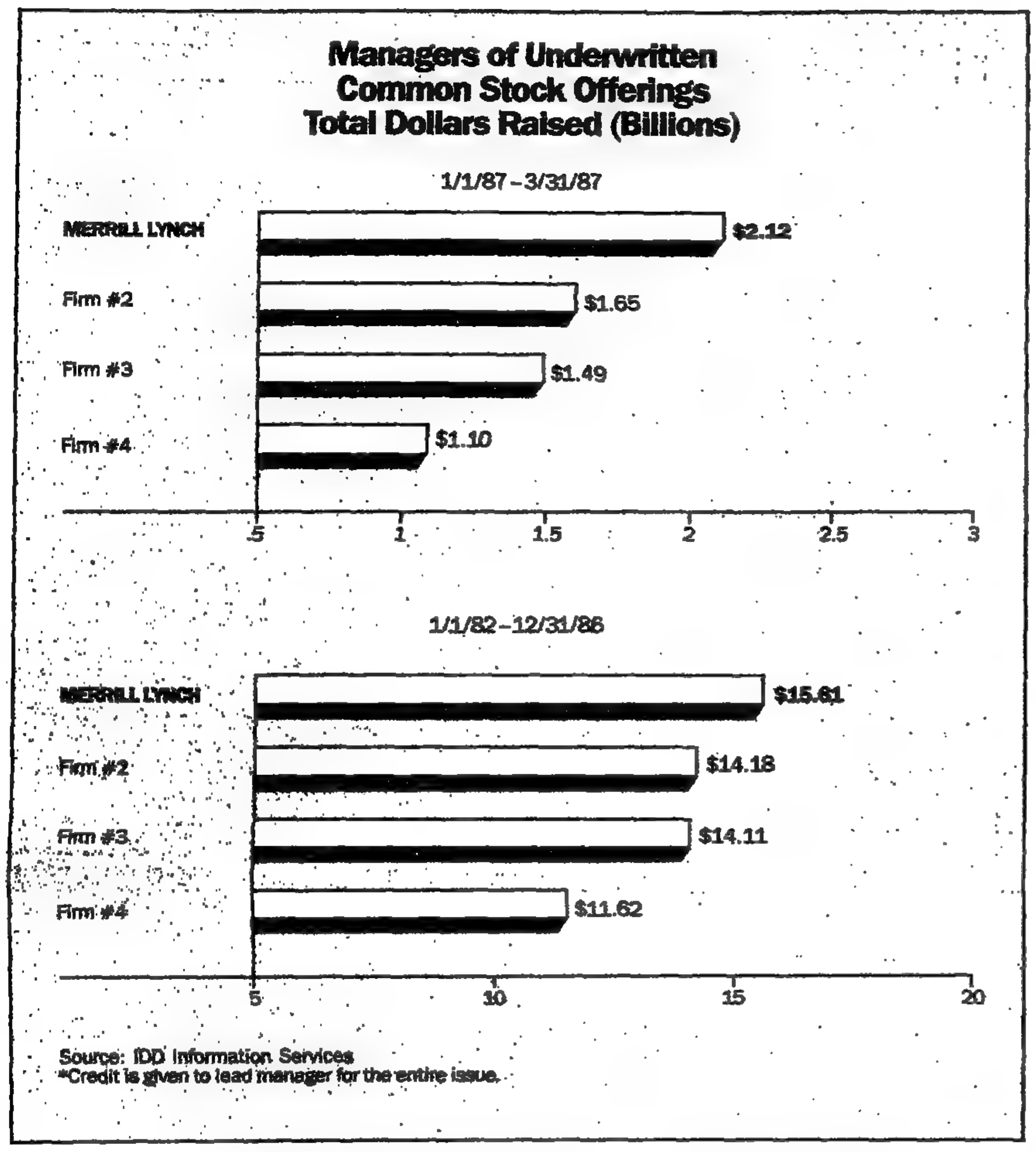
"I am much happier when there are problems and difficulties," he says with a sigh. "You can make more worthwhile decisions."

For the moment, Dreyfus is fairly indistinguishable from the vast herd of fund managers peddling mutual funds. It will probably take a major market shake-out for Dreyfus to recapture its former pre-eminent position in the industry.

William Hall

Harness the power

that brings clients back to Merrill Lynch Capital Markets time and again for their common stock financings. For the five years ending December 31, 1986, and the first quarter 1987, Merrill Lynch ranked first as book manager in both dollars raised and total transactions.



These successful offerings result from a unique combination of our investment bankers' expertise, our unequaled network of both institutional and retail distribution, and our number one position in secondary market-making.

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of the leader in common stock.

Merrill Lynch

New instruments require thought

Continued from page 6

has been rated by the major rating agencies.

The slowdown can largely be attributed to one factor: reduced issuance by General Motors Acceptance Corporation (GMAC), the automobile giant's financing subsidiary that is the market's dominant issuer. GMAC accounts for over 60 per cent of the market, having issued more than $8bn in packaged car loans, but its reduced profile is regarded by many as healthy for the market's development.

"This year we expect there will be an awful lot of banks and finance institutions in the market," said Mrs Diana Strickler, a vice president in the asset finance division of First Boston, the firm which has brought a huge 86 per cent of such asset-backed deals to market.

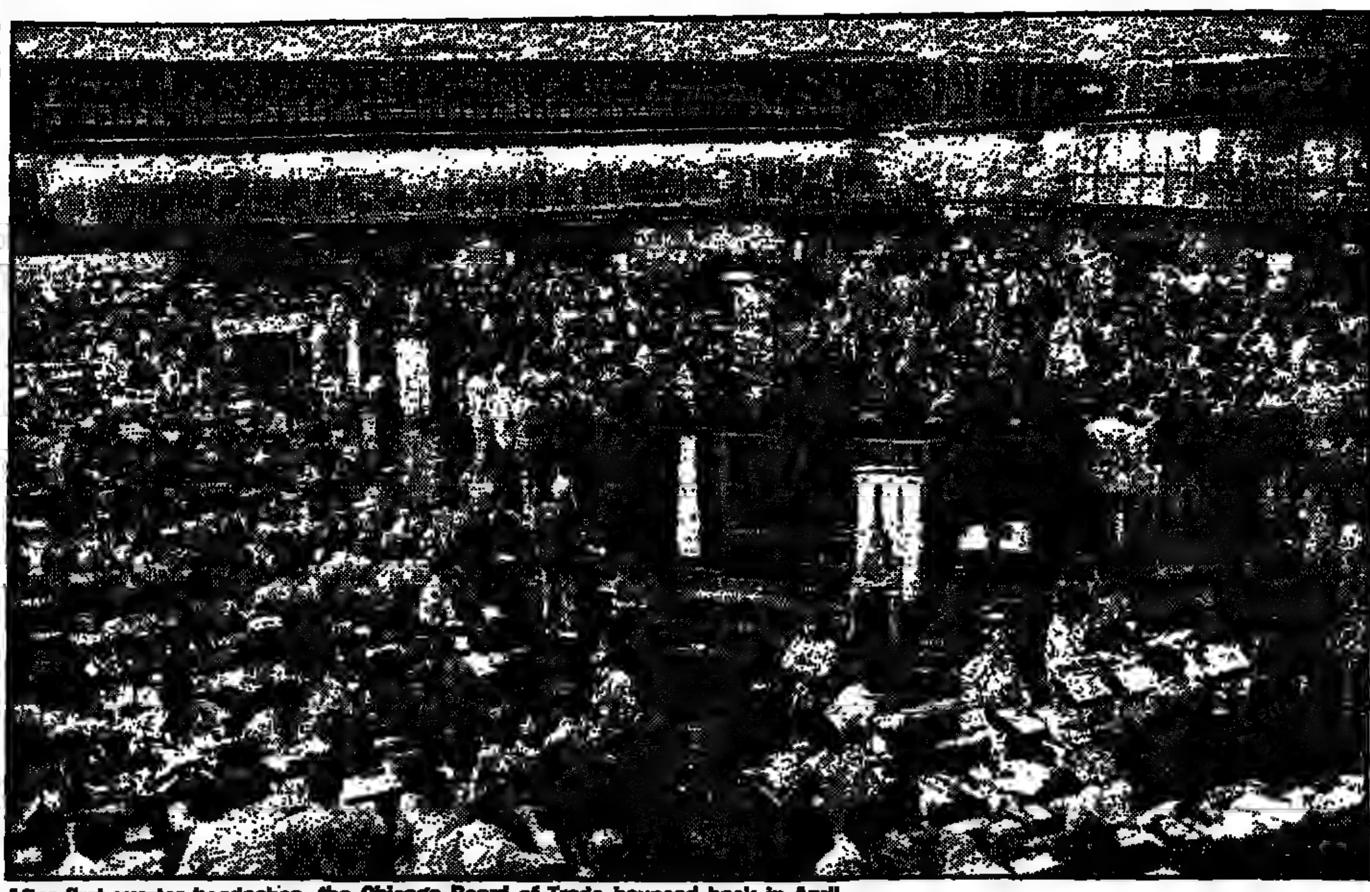
Many commercial banks are considering following the example of Bank of America and issuing securities backed by credit card receivables, for example.

Asset-backed securities can be constructed as simple pass-throughs, or cash flows can be reconfigured as they are for CMOs. Just as in the conventional mortgage securities, asset-backed paper generally has high credit quality, a standardised product and good liquidity.

But, to certain investors, asset-backed paper has further advantages. Some of these are conferred by the securities' shorter maturity, an average life of 1.5-to-two years and a final maturity of five years, compared with final maturities in 15 or 30 years in the mortgage-backed market. Research has also shown that the pre-payment risk for securities backing car loans or credit cards is much lower than for mortgages. Simply speaking, people do not consider it worthwhile to refinance a car loan when interest rates fall. This makes the behaviour of these bonds more similar to straight corporate debt than to mortgage debt.

Almost any contractual cash flow is packageable in this way, and there is a potential spectrum of instruments, from those that look very much like corporate bonds to those that seem very close to equity (for example, the packaging of future receivables from electricity bills, which would depend on the future ability of a utility to deliver that electricity).

Stephen Fidler



After first-quarter headaches, the Chicago Board of Trade bounced back in April.

Most actively traded contracts

Rank	Contract (exchange)	1986 volume (in thousands of contracts)
1	T-bonds (CBOT)	52,599
2	S&P 500 (CME)	19,505
3	T-bond Options (CBOT)	17,314
4	Eurodollars (CME)	10,825
5	Gold (COMEX)	8,400
6	Crude Oil (NYMEX)	8,314
7	Deutsche Mark (CME)	6,582
8	Corn (CBOT)	6,160
9	Soyabeans (CBOT)	6,134
10	Swiss Francs (CME)	4,998
11	Live cattle (CME)	4,691
12	T-Notes (CBOT)	4,426
13	Japanese yen (CME)	3,970
14	Silver 5000 oz. (COMEX)	3,850
15	Sugar No. 11 (CSCE)	3,584
16	Heating oil No. 2 (NYMEX)	3,275
17	Soyabean oil (CBOT)	3,183
18	NYSE Composite Index (NYFE)	3,124
19	Soyabean Meal (CBOT)	3,049
20	British Pounds (CME)	2,701
21	Deutsche Mark Options (CME)	2,206
22	Wheat (CBOT)	2,090
23	Live hogs (CME)	1,937
24	S&P 500 Options (CME)	1,886
25	Copper (COMEX)	1,872

Source Chicago Board of Trade

The New York Mercantile Exchange got an oil-fuelled boost

Futures and options

Out of the backwaters, into the mainstream

THE REMARKABLE growth rate that the US futures and options sector has enjoyed, since trading in financial instrument derivatives began in earnest in the 1970s, shows no sign of abating.

In 1986, the three huge Chicago exchanges each registered volume that was over 20 per cent up on the previous year, with the busiest contract of all—the Chicago Board Options Exchange's S & P 100 Stock Index option—trading an amazing 113.2m lots.

The smaller New York Mercantile Exchange, fuelled by volatility in world crude oil markets, boosted volume by almost 89 per cent to 14.8m lots. The growth rate of over-the-counter futures look-alike products, meanwhile, is reckoned by some observers to exceed even these impressive figures.

Only New York's Commodity Exchange Inc, of the major domestic exchanges, has cause to look back on last year with anything less than satisfaction. It suffered a marginal volume decline, despite a spasmodically bullish underlying gold market.

While first quarter 1987 volume levels will have prompted some headaches at the Chicago Board of Trade—due to the uncharacteristic and potentially ruinous silence which frequently descends on its flagship US Treasury bond futures and options pits—the exchange bounced back in April, a month which included nine of the top 10 volume days in its 139-year history.

Further volume hikes, particularly at the Chicago exchange, are expected in the wake of the Japanese Ministry of Finance's recent decision to allow major Japanese institutions to trade for their own account on overseas exchanges.

One of the main side effects of this sustained financial instrument based expansion has been to bring the major futures exchanges—not so long ago agricultural backwaters—into the mainstream of domestic and global capital market evolution.

This is partly because Wall Street and Wacker Drive are increasingly playing with the same chips—with the volume of business in the most liquid futures contracts, moreover, not infrequently eclipsing that of the underlying securities. On April 9, for example, a record $491bn of CBOT US T-bond futures contracts changed hands. On September 11, some 151,000 Chicago Mercantile Exchange S & P 500 contracts were traded, representing an underlying value of $18bn worth of stock, or nearly twice the value of stocks traded on the New York Stock Exchange that day.

And it is partly because the biggest users of securities and derivatives exchanges alike are increasingly the all-purpose securities houses, with the capability to operate across the board in cash, futures and options, and over-the-counter markets.

"The markets tend to go together," according to Mr Tone Grant, president of Refco, the world's largest futures commission merchant. "People are recognising that to own the cash instruments only is the ultimate form of speculation, because you can use futures and options along with cash in a managed portfolio strategy.

In response to the increasing inter-relationship between cash and derivatives markets, US exchanges are beginning to explore the possibility of links with each other, and of jointly traded products; just as they are forging ties with direct competitors overseas in a bid to create seamless 24-hour markets.

In November, the CME and the New York Stock Exchange set up a high-level task force to examine a wide range of possible collaborative measures. This was followed by the announcement in May that the CBOT and its progeny, the CBOE, are discussing a range of new products to be traded by members of both exchanges.

The exceptional liquidity of a growing number of exchange-traded futures and options is also opening up opportunities for the most sophisticated exchange users to : (a) profit from increasingly complex arbitrage strategies; and (b) offer an expanding range of tailor-made risk management tools to their own customers, safe in the knowledge that they will be able to hedge their concomitant exposure on the exchanges.

Programme trading—whereby speculators seek to capitalise on short-term discrepancies between the cash value of stocks, consisting of an index such as the Standard & Poors 500 and the price of the futures contracts based on that index, in the knowledge that the premium or discount will revert to zero when the contract expires—is undoubtedly the best known of the arbitrage strategies to be developed by the securities houses. But it is one among many.

Furthermore, the globalisation of the markets and the improved access which new technology is providing are combining to produce an environment in which such opportunities can proliferate.

"Unlike the arbitrage between like instruments in the futures and options markets, the new global arbitrage will be much more complex . . . and therefore will provide more opportunities for a longer period of time," wrote Mr John Powers, editor-in-chief of the trade publication Intermarket recently.

Despite an ongoing dispute over their legitimacy, meanwhile, a veritable menagerie of over-the-counter futures look-alike products is being developed by the most creative securities houses, to cater for an increasingly diverse range of risk management requirements. Usually imbued with disarmingly catchy names (Foxes, Quantos, Spelbonds, Caps, Range forwards . . .) they present the likes of banks, corporations and fund managers with a dizzying array of tailor-made risk management tools.

As the use of speculative and hedging strategies exploiting the interplay between cash and derivatives markets continues to spread, so futures and options will be drawn still farther into the financial mainstream. Chances are, the recent tentative steps towards links between US exchanges, whose main expertise lies in different sectors of the securities and futures and options markets, represent merely the tip of the proverbial iceberg.

David Owen

Bonds

How the fall came in spring

IN JUST a few days in late March, US credit markets swung viciously from benign torpidity to dangerous volatility, as investors suddenly saw the threat of higher interest and inflation rates, a far lower dollar and intensifying trade wars.

Most dealers welcomed plunging prices as an opportunity to trade, but the suspicion is rampant on Wall Street that some firms took heavy *losses* which will undercut their second quarter results. So far only Merrill Lynch has revealed the extent of the damage, saying it would take a $275 pre-tax loss on trading of mortgaged-backed securities.

The debacle was triggered by *Washington's* announcenment that it was imposing swingeing sanctions against Japan for its alleged failure to curb the sharp trade *practices* of Japanese semiconductor makers. Fears of a trade war sent the dollar spinnig downwards and interest rates soaring.

Just when a semblance of calm was restored on the international side, soaring commodities futures prices unleashed *exaggerated fears of sharply* higher inflation in the US, which prompted another wave of bond selling.

Observers judged the rout of credit markets in the eight weeks to late May as one of their sharpest reversals since the second oil crisis in 1979. The price, *for example,* of 7½ per cent, 30-year bonds fell some 17 points as their yield rose from 7.50 per cent to more than 9 per cent.

Even bigger setbacks were suffered in securities which were relatively new and imperfectly understood, or which had been changed significantly by last year's US tax reform. Merrill blamed its losses on unauthorised trading in mortgage-backed securities by an employee, but other factors were at work. The securities

All domestic bond underwritings/ domestic debt underwritings

	Amount ($bn)	Revenue ($m)	Corporate ($bn)	Municipal ($bn)
1980	89.7	924.5	41.3	48.4
1981	88.2	1,144.0	40.5	47.7
1982	122.2	1,987.9	43.9	78.3
1983	137.9	2,786.9	52.2	85.7
1984	198.2	2,457.8	69.4	128.8
1985	348.2	3,501.9	104.9	243.3
1986	389.6	4,566.3	228.4	161.2

had been separated *into* all-interest and all-principal instruments, with the latter proving hard to sell and subject to even steeper price falls than traditional securities.

Wall Street tends to confuse size with maturity when it comes to products and markets. *With some $300bn of mortgaged-*backed securities issued so far, the market is considered relatively mature, but the hedges remain imperfect and the behaviour of the securities in certain unusual circumstances is not fully understood.

In other example, municipal *bonds* were *hit far harder than* treasuries, because of the changed structure of their market. One indication of their predicament was that the price spread between municipal and treasury bond futures fell in two weeks up to mid-April from a premium of ⅓ of a point to a discount of 4⅓ points ad are recovering only slowly. Until tax reform, commercial banks had been the buyers of last resort, but now virtually the only customers for long-dated municipals are open-ended mutual funds. These, however, were *swamped by net redemp*tions as the markets turned down.

Before the storm broke, the markets had sat through an unnerving calm. Investors were disinclined to trade bonds because it looked as though the *US economy was stuck in a low* growth/low interest rate rut. Consequently, bond prices remained on the high plateau they had reached during last year's spring rally.

At its quietest level, in mid-March, bond trading was down 23 per cent in volume terms *from the average level of the* previous year, and down 35 per cent from the year-earlier rally, even though the number of primary dealers had risen to 40 from 36 and treasury had added some $200bn of paper to the $2,100bn government bond and note market.

To make matters worse, retail activity fell back more dramatically, leaving dealers to trade among themselves. Price volatility sank *to its lowest level* in a decade, and a daily movement of more than a point became a rarity.

Credit markets are unlikely to sink into so deep a stupor for a long time. Volatility came back with a vengeance, and is likely *to stay.* US interest rates look as though they are heading higher, but investors will not be big buyers of bonds until they believe that interest, inflation *and foreign exchange rates* have stabilised. All in all, credit market players face a protracted period of difficult trading in which miscalculations will be expensive.

Meanwhile, the roll call of players is changing. Commercial banks are moving inexorably into territory once preserved by the Glass-Steagall Act for investment banks, although they are having to fight bard for each new concession.

The foreign involvement grows apace as well. Late last year the Federal Reserve conferred its coveted primary dealer for the first time on Japanese firms, Nomura Secur*ities and Daiwa. A third, the* Industrial Bank of Japan, won it indirectly when its J. Henry Schroder subsidiary took over Aubrey G. Lanston.

The door slammed shut soon afterwards, however, when other Japanese organisations tried to push deeper into US markets. The long term credit bank got a stony response when it tried to take over one of the two remaining independent dealers, and several Japanese trust companies continue to suffer long delays in their applications for New York licences. The Fed says it is merely exercising prudence by asking lots of questions. But, to the Japanese, it looks like pressure to open further their domestic *markets to foreign firms.*

Those Japanese firms already established are rapidly broadening their activities out from the government securities business into, for example, corporate bond issues. Last autumn, Nomura became the first foreign firm to be sole underwriter on a US corporate bond issue, when it brought a General Electric issue to market on terms criticised by *domestic competitors for their* extreme fineness.

Although it will take Japanese firms a few more years to make a significant dent in the business of US competitors, the trend is clear: the rewards for doing business in US credit markets are being squeezed by increasing competition, even as the risks from volatility and new products are growing.

Roderick Oram

Junk bonds

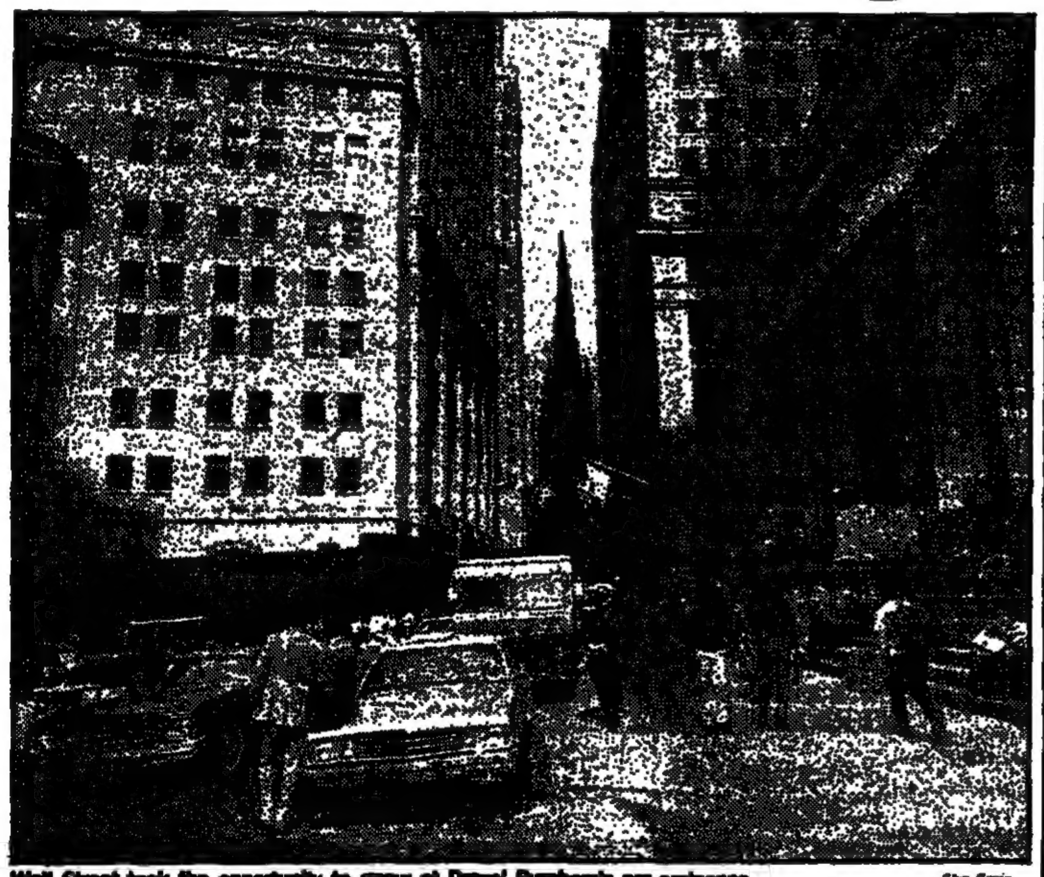
A questionable middle age

IT IS 10 years since Drexel Burnham Lambert launched a revolution in US corporate finance by underwriting and trading new issues of blatantly low-grade corporate debt.

In that 10 years the market for "junk bonds," as everybody but Drexel Burnham knows this debt, has transformed the ability of *small* and medium-sized companies to raise long-term finance. Whole industries, such as cable television, have grown *on a diet of junk.* With about $125bn in junk bonds outstanding, the market is settling down to middle age.

But it is not a respectable middle age. Even before Mr Ivan Boesky, the disgraced arbitrageur, denounced Drexel Burnham and its junk bond operation as part of his plea-bargaining with the Securities and Exchange Commission and criminal prosecutors, junk bonds were *highly* controversial.

The bonds squeezed out the banks and the life insurance *companies* that held mid-sized companies captive for their longer term money for much of the 1970s. Once investors had gained a taste for high-yielding and high-risk paper, junk bonds could be issued *for* takeovers and buy-outs, allowing newcomers to compete for the control of corporations. *Above all,* the bonds turned Drexel Burnham into the most powerful and profitable firm on Wall Street, *which is never nice for competitors.*



Wall Street took the opportunity to gnaw at Drexel Burnham's pre-eminence

Glyn Genin

The rumours about Drexel Burnham have confirmed much of corporate America, some politicians and conservative financiers in their opposition to junk bonds. Wall Street, as is its wont, has used the opportunity to gnaw at Drexel Burnham's pre-eminent position in a highly profitable market. But whatever happens to the firm, junk bonds are *here to stay.*

In a sense, Drexel Burnham and its chief junk trader, Mr Michael Milken, merely rediscovered the junk bond. As currently defined, a junk bond is a security rated as below investment grade by the two rating agencies—Standard & Poor's, and *Moody's—and yielding* a minimum of 200 to 250 basis points (2 to 2.5 per cent) over the yield on Treasury bonds.

Companies try to maintain an investment-grade rating because many institutions, such as insurance companies or pension funds, may not, or will not, invest in lower-grade bonds. Companies are typically denied investment-grade ratings if their financial ratios—such as debt/equity or interest *cover—if* their asset quality or their lack or track record raises questions about their ability to pay bondholders.

The issue of new junk bonds was popular in the 1920s and 1930s. These bonds were joined, in the Depression, *by a host of* so-called "fallen angels": bonds that had started life as investment grade but fallen on hard times.

According to Jan Loeys, an economist at the Federal Reserve Bank of Philadelphia, low-grade bonds made up 40 per cent of all corporate bonds outstanding in 1940. The flood of junk defaults in the 1930s—10 per cent a year—created *a pro*found aversion to new junk bonds, so that by *1970* only about 4 per cent of bonds outstanding were junk.

Junk bond issues ($m)

	New issues	Total amount
1980	46	1,379.6
1981	37	1,279.6
1982	56	2,499.0
1983	98	7,534.4
1984	133	14,111.3
1985	182	14,754.1
1986	228	32,399.6
thru 5/10/87	62	8,639.2

Source: IDD Information Services

In 1977, Mr Milken, who had been making a *secondary* market in fallen angels, began to revive the market for original-issue bonds of beneath investment grade. Equities were depressed, and therefore expensive for issuers. The new bonds caught on with adventurous investors, and then with life insurance companies and mutual funds.

By 1982, new issues were running at $2.5bn a year, or 6 per *cent of the total corporate bond* market. In 1983, Drexel Burnham started feeding into its growing network of private and institutional buyers with bonds for leveraged buy-outs and takeovers. It used a highly sophisticated form of credit analysis that jettisoned traditional financial ratios in favour of a brutally unsentimental attitude to asset sales and the max*imisation of cash flow.*

The next year, Drexel Burnham underwrote no fewer than 69 per cent of the $15bn in new *issues. By 1986, in the height of* the takeover and buy-out boom, the new issue market was running at $34bn a year, or about a fifth of the total corporate debt market.

But 1986 was probably a watershed for the market and for Drexel Burnham's control of it. The bankruptcy of LTV, the steel company, last summer refocused attention on the higher default risk associated with junk bonds. On a par value *basis, the default rate for junk* bonds last year was 3.4 per cent, against a negligible rate for investment grade bonds. This is the highest default rate since the 11.4 per cent of 1970, when Penn Central went bust.

The default rate has provided ammunition by regulatory authorities that wish to limit junk bond holdings by, say, insurance companies. Even before the LTV bankruptcy, the Federal Reserve announced that highly leveraged takeover bids secured on the target company's stock were really margin purchases, subject to the usual 50 per cent rule: that is, only 50 per cent of the stock purchase can be financed by borrowings.

Many people (including, not *surprisingly, the bankers of* Drexel Burnham) think the default risk is exaggerated. According to an analysis by Mr Edward Altman, a professor at New York University who is also a consultant at Morgan Stanley, defaulted bonds typically trade at an average of around 40 cents to the dollar. Last year's dafault loss was therefore nearer 2 per cent. This is comfortably hedged, in a diversified portfolio of junk bonds, by a yield premium over Treasury bonds of up to 500 basis points.

But junk bonds have not been particularly good investments lately. Corporate bonds are liable to call (or refinancing at a lower rate). Added to the high default rate last year, calls caused junk bonds to under-perform the Treasury market for the third year in a row. This year, junk bonds performed splendidly in the first quarter, with yields falling from the panic heights reached with the Boesky revelations in November. But in the past two months, junk bonds have been infected by the turmoil in the Treasury *market.*

It *is* the equity market that has been strong. With dividend yields on equities falling to 2 per cent, it has become more attractive to issue stock and less attractive to replace equity with high-yielding debt, as in a leveraged buy-out.

In addition, the reform of federal taxation that went into force this year reduces corporate tax rates, thus raising the after-tax cost of debt. Many companies, such as Union Carbide, are now retiring their junk bonds with issues of equity. Drexel Burnham itself thinks that the market will grow only 15 to 20 per cent this year, to $140bn to $150bn—and it is fighting for its share.

Wall Street competitors, such as Morgan Stanley and First Boston, have captured some of Drexel's business by aggressively offering bridge loans to tide bidding companies over till junk bonds can be issued. First Boston's pledge of almost its entire net worth for Campeau's purchase of Allied Stores last year resulted in a $900m underwriting. Morgan Stanley provided bridge financing for the $1.3bn buy-out of Owens Illinois, and is expected to provide some form of bridging finance for the recapitalisation of Burlington Industries.

Drexel Burnham's share of underwritings is still running at about 47 per cent. But it will be tough going to maintain that, whatever happens to the investigation.

James Buchan

Foreign banks

Debt the key as Japan sets pace

FOREIGN BANKS and securities firms are taking an increasing role in the rapidly-changing US financial system, and there are few signs of a reversal in this trend.

For decades, foreign banks have had an important presence in the US, reflecting the size and importance of the US markets, the role of the dollar as an international medium of exchange and the multinational origin of many of its inhabitants.

Figures from the US Federal Reserve, however, underline how quickly that role is expanding. In 1985 and 1986, assets of the US banking system grew by 4 per cent and 10 per cent respectively, while growth in foreign bank assets was 21 per cent and 15 per cent.

Growth in Japanese bank assets was 20 per cent in 1985, and an astounding 35 per cent in 1986. By the end of 1986, foreign bank assets totalled $526.6bn, representing 19 per cent of US bank assets. Japanese banks made up almost half of that total, although the figure was somewhat inflated by their habit of booking most of their western hemisphere loans through their US offices.

Foreign banks account for almost 20 per cent of business loans to US firms. In some segments of the market, such as standby letters of credit, Japanese banks account for between a quarter and a half of the total US market, Mr E. Gerald Corrigan, president of the Federal Reserve Bank of New York, told a recent Senate committee hearing.

The story does not end with the banks. Foreigners, paced by the Japanese, are also making inroads into the securities business. Eleven Japanese securities firms, with combined capital of $400m, were employing 1,450 people in the US in 1986. In 1984, nine had been present, with a capital of $100m, and had employed 450.

Part of the growth in the importance of foreign firms can be attributed to their perceived need to position themselves for continued technology-led growth in the global financial markets. But, more significantly, it is being brought about by the emergence of the United States as a major debtor country. Foreign institutions, particularly those from Japan with its high domestic savings rate and huge current account surplus, are the natural conduits for those funds.

Predictably, and despite the important economic function they are performing, this expanding role is the subject of controversy, which is inevitably linked with the highly-charged debate on trade relations between the US and Japan.

From the US bankers' point of view, Japanese banks are gaining market share because of the less stringent capital requirements placed upon them by the Japanese authorities. This allows the Japanese to pare margins on loans and, perhaps more significantly, on guarantees and other contingent liabilities, for which domestic US banks have much tougher requirements than their Japanese counterparts.

Japanese bankers say their banks are well capitalised, aided by the existence of hidden reserves; but many agree that the marginal capital required to make a new guarantee or letter of credit is less for a Japanese than for a US bank.

In the US letter of credit market, for example, US banks are quoting rates of anything up to 1.5 per cent. By comparison, some Japanese banks are charging on occasions less than 0.1 per cent. "It's not surprising that a very large percentage—it may be as much as 50 per cent of all guarantee or letter of credit business—is being done by Japanese banks," said Mr Thomas S. Johnson, president of Chemical Bank.

Even some Japanese bankers concede that some of their number may be behaving rather too aggressively. Mr Hiroshi Hayashi, general manager and agent of the Bank of Tokyo New York agency, said: "Sometimes Japanese bankers try to do business that goes beyond a reasonable level. Sometimes they do it at a profit which doesn't justify the risk."

To regulators and bankers, the issue underlines the importance of that most overworked cliché in American financial parlance: "the level playing field." More specifically, it heightens the urgency of bringing Japanese banks into the agreement, announced earlier this year, on harmonising capital adequacy rules for US and UK banks.


Mr E. Gerald Corrigan: in some segments the Japanese have nearly half the market

Banking operations (A) of foreign banks in the US ($bn) (B)

	1985 assets	% of US banking assets	1986 assets	% of US banking assets
Japan	181.3	6.1	245.4	8.7
Canada	42.3	1.7	42.4	1.5
UK	61.2	2.4	40.6	1.5
Italy	29.1	1.1	36.4	1.4
Switzerland	18.3	0.7	24.5	0.9
France	20.7	0.8	22.4	0.8
West Germany	8.8	0.4	11.0	0.4
All other countries	97.2	3.8	103.9	3.8
Total US banking assets of foreign banks	458.9	18.0	526.6	19.0
Total assets of domestic banking institutions (C)	2,098.7	82.0	2,285.9	81.0
Total US banking assets (C)	2,557.6	100.0	2,812.5	100.0

(A) Total US banking assets of major foreign countrie as of December 31.
(B) Amounts for each country include the total US banking assets of II banks from that country, namely the aggregate of the assets of their US branches, agencies, bank subsidiaries, Edge Act & Agreement corporations and New York state-chartered investment companies (called Article XII corporations).
(C) Includes the total consolidaed assets (domestic & international) of all US banks.

For Chemical Bank and others, the major question is broader than the issue of market share in the US. Mr Johnson sees it as an issue of "whether any US financial firms will be strong enough to be ultimate players in a worldwide financial system." US banks are being shackled both at home and abroad by US legislation which limits their activities along business and geographic lines. "Japan now has six banks among the world's 10 largest, compared with America's one," he said.

But, despite their size, it's not the Japanese banks that he and others seem to fear most. They are, after all, restricted in the same way as US banks from taking part in the securities business. The real challenge, in the eyes of many, comes from the giant Japanese securities houses. Fixed commissions and surging volume on the Tokyo Stock Exchange have allowed them to build up huge profits and big reserves of cash and capital.

Physically, Nomura or one of its competitors could swallow any one of the top US banks or securities firms. In fact, Nomura would suffer only modest dilution, analysts say, if it were to acquire all the publicly quoted securities houses in the US. In the current political environment, such a move is unlikely, but it illustrates the power that these firms can wield worldwide.

Acquisition is on the minds of many Japanese financiers. Mr Hayashi of Bank of Tokyo says his institution, like every other Japanese bank, is interested in acquiring "a good American investment bank or securities house.

"Of all the industries in the US, the financial services industry is the most competitive," he says. American expertise and know-how in the capital markets is something Japanese firms can use.

Japanese and US regulators seem to be the major obstacles to the Japanese banks in this area. Japan's Article 65 would prevent Japanese banks from marketing capital market products in Tokyo.

The Federal Reserve's ruling in the case of Sumitomo Bank's $500m acquisition of 10 per cent of the shares of Goldman Sachs will also slow down the pace of such deals.

Sumitomo's investment in Goldman can only be passive, the Fed ruled. The reason would be contravention of the Glass-Steagall legislation, which separates commercial banks from the securities business. "We are becoming more cautious in doing such operations here," said Mr Hayashi.

Nomura would not be subject to the same regulatory constraints but, interestingly, both Nomura and Daiwa did not take the acquisition route in setting up a primary dealership in US government securities. Both started their own operations from scratch, suggesting that they have doubts about spending money on acquiring firms manned or peopled by Wall Street's fickle and mobile workforce.

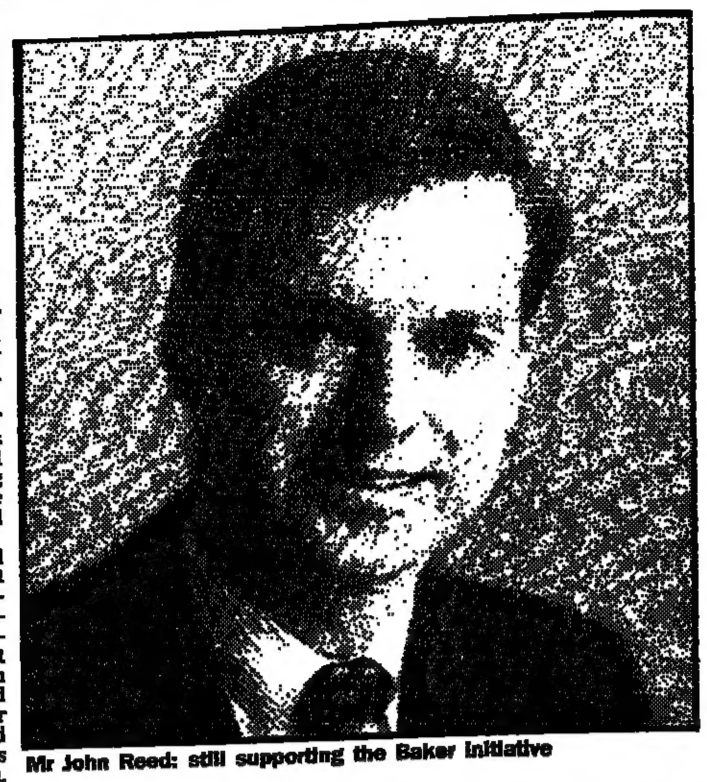
"I think any of the four large Japanese firms could make a big acquisition with the tremendous growth we have seen and their great need to be truly global," said one executive at one of the firms, who would not be party to such a decision. Less politically sensitive, and more likely in the near term, would be further joint ventures between specialist US companies and the Japanese.

Stephen Fidler

Third World debt

Ripples from Citicorp

"I honestly believe an equity investment is a better asset today in Brazil than a loan to the central bank—where that loan is 20 years, subject to renegotiation at the will of the borrower, at what would appear to be an ever-declining rate"—Mr John Reed, Citicorp chairman, in an interview with The Wall Street Journal.


Mr John Reed: still supporting the Baker initiative

FUTURE HISTORIANS of the 1980s international debt crisis may well come to remember May 19 1987 as a turning point in relations between the heavily indebted Third World countries and their bankers.

This was the day when Mr John Reed announced that his bank, the biggest international lender, was adding a whopping $3bn to its reserves for possible losses on its $14.8bn Third World debt portfolio.

Although Mr Reed stressed that his action did not mean that his bank was writing off a quarter of its loans to these countries, most analysts have interpreted his move as meaning just that. Citicorp is taking a $2.5bn second quarter loss, far and away the biggest loss ever recorded by a US bank, and reducing the book value of its shareholders' funds by a third.

Moody's, the US credit rating agency, which left Citicorp's debt rating unchanged, concluded that "the provision merely adjusts the financial statements to more accurately reflect economic reality." Standard & Poors, the other major US rating agency, described the move as "a positive response to a deteriorating situation."

Citicorp's action is "a welcome if belated recognition of the realities of the international debt situation. The US banks' pretence that loans to major debtors are worth 100 cents on the dollar has been shattered," says Mr Geoffrey Bell, an international debt expert, in International Reports, a Financial Times news letter.

The move is having a ripple effect throughout the rest of the US banking community. Within days of Citicorp's announcement, Chase Manhattan, the second biggest New York money centre bank, and Norwest Corporation had followed suit. Other US banks with heavy exposures to Third World countries are likely to follow Citicorp's dramatic lead, focusing attention on some of the less well capitalised US banking giants which may not be able to afford to take such a swingeing hit to their equity.

Citicorp decided to boost its loan loss reserve ratio from a below average 1.39 per cent of loans to an above average 3.7 per cent because it seems to have come round to the view that there is not going to be any speedy resolution of the problems of the third world. "The debt problems will be with us into the 1990s and we see nothing in the global economy that would enable these countries to get out of their situation," says Mr Reed.

While he stresses that there has been no change in Citicorp's basic position vis-a-vis the sovereign debt issue, and he continues to be an active supporter of US Treasury Secretary Baker's debt initiative, it is clear that Citicorp has decided to clean up its sovereign debt portfolio by taking a once and for all provision. Over the next few years, Citicorp plans to reliquefy much of its Third World debt portfolio by asset sales, debt/equity swaps and other measures.

Although Citicorp is merely withdrawing funds from its shareholders' funds to top up its loan loss reserve ratio, Wall Street's initial response has been very positive, and in the first week Citicorp's shares rose by more than a tenth.

Salomon Brothers' bank analysts, for example, described the action as "a positive, constructive move," while Standard and Poors says it "introduces a new discipline and increases the pressure that loss reserves against other lesser developed country exposure be built quickly and substantially."

David Cates, chairman of Cates Consulting Analysts, says that the effects of Citicorp's move on some of the other major US banks will be "very severe." BankAmerica and Manufacturers Hanover Corporation, for example, both have the equivalent of nearly twice their equity capital committed to Latin American borrowers and are less well placed substantially to bolster their reserves.

Mr Henry Kaufman, Salomon Brothers' chief economist, says that the Citicorp action is not likely to have any near-term monetary consequences, but Mr Edward Hyman, chief economist at C. J. Lawrence, believes that the Fed would be forced to ease its monetary stance if there were any danger that a major US bank was finding difficulties funding itself in the world's money markets.

It is clear that, within the US banking community, not every major US bank is going to imitate Citicorp's action. Indeed, aside from the less well capitalised groups, some of Citicorp's more conservative rivals question why it was necessary to write off a third of Citicorp's shareholders' funds at this time. One explanation is that, after years of under-reserving, Citicorp was merely catching up with some of its rivals which have traditionally maintained higher loan loss reserve ratios.

Apart from the implications for the rest of the US banking community, Citicorp's action could have a major impact on the resolution of the Third World debt crisis. It has strengthened the banks' bargaining hand and, "despite all the rhetoric to the contrary, as more and more banks take big hits, I simply cannot see those same banks being willing to extend new loans to the debtor nations, whether to pay interest or to grow," says Geoffrey Bell.

Mr Felix Rohatyn, of Lazard Freres, told the Washington Post that Citicorp's bold action "clearly jars the financial system. It's a fissure running up and down the walls. Right now, you cannot tell how far it is going to go."

Mr Rohatyn says that "it is hard to imagine that it will lead to anything except a sharp reduction in lending by the banks"; and Mr Norman Bailey, an international debt expert and former member of the National Security Council staff, describes Citicorp's action as marking the final "coup de grace" for the so-called Baker initiative.

However, Mr Reed describes himself a great fan of US Treasury Secretary Baker and his debt initiative, and does not subscribe to the negative interpretation of his action.

"Everybody is saying that the Baker initiative is dead, banks won't lend any more to developing countries, and it's amazing to me because the facts are not there," said Mr Reed in a recent interview with the Wall Street Journal, adding that: "There has been new money flowing, and most observers would believe that there must be new money flowing in countries that are seeking to grow and that are making structural adjustments."

William Hall

Thrifts

Savings banks' problems persist

IF THE state of the US banking industry makes some observers uneasy, the condition of some members of America's $1.1 trillion (million million) savings bank industry is positively hair-raising. Solving their problems, before nervous depositors begin to rush for the exit, is a top priority for US financial policy planners.

The problems of the US savings bank industry are not new. Reliance on fixed rate lending, at a time when interest rates were soaring because of the rapid rise in prices, pushed many thrifts into bankruptcy in 1981 and 1982. The industry was subsequently deregulated, but many savings banks have been unable to rebuild their capital base, while others have taken advantage of the freer supervisory atmosphere to expand into new and more risky areas.

Last year the earnings of the 3,235 federally-insured US savings and loan associations (S & Ls), often referred to as "thrifts", fell by 54 per cent to $2bn, despite lower interest rates; and the industry's return on assets, a key indicator of its financial health, dropped from 0.4 per cent, in 1985, to 0.17 per cent. It was the industry's worst performance since 1982, according to a report by Sheshunoff Co, a financial consultancy firm.

The savings bank industry can be divided into three tiers, says Mr Alex Sheshunoff, president of Sheshunoff & Co. "First, you have the long-term winners that, through early adaptation of variable rate loans and consistently good asset quality, have done and will continue to do well. Second, there are the 'low interest rate wonders' that survived the period of high interest rates and now have large portfolios of high-yielding fixed rate loans as their cost of deposits has fallen. And third, the major losers that bet heavily on commercial real estate and land acquisition in the southwest and other markets where prices have plummeted.

"The major problems facing the savings industry today focus on the activities of a small minority of S & Ls," says Mr Sheshunoff, who nevertheless stresses that the total financial impact of these problems will cost tens of billions of dollars before it is over.

This is what is worrying the hard-pressed regulators of the US savings bank industry. They are uncomfortably aware that the Federal Savings and Loan Insurance Corporation (FSLIC), which was set up to protect the money of the small depositors, has been insolvent, like many of its customers, for some months; and that, despite the concerted pressure of the US Administration, Congress has so far refused to bail the industry out by agreeing to pump an extra $15bn into FSLIC.

The General Accounting Office, a congressional watchdog agency, found that FSLIC was insolvent by $6.3bn at the end of last year and had well under $1bn of cash to pay off the depositors of failed banks.

This has severely limited FSLIC's efforts to come to the rescue of severely troubled thrifts, and regulators stress that the longer the rescues are delayed the higher the eventual cost to the insurance fund. Mr Edwin Gray, the chairman of the Federal Home Loan Bank board, who is responsible for the thrift industry, says that his problem caseload is losing money at the rate of $10.4m a day, or $3.8bn a year, and that the rate of losses is growing dramatically. Last year FSLIC's caseload of institutions in serious financial trouble virtually doubled to 183, and it has estimated that the cost of providing assistance to the nearly 300 insolvent S & Ls may range up to $21bn, with an extra $4bn needed for another 100 institutions that currently appear to have little chance of recovery.

FSLIC's financial problems have already led to some savings banks being forced to pay excessively high interest rates, to prevent nervous depositors removing their money. Meanwhile, some of the healthier thrifts are becoming increasingly restive about being asked to provide higher deposit insurance premiums, which are then used to bail out their imprudent rivals. Several big thrifts have threatened to leave the FSLIC system and switch their charters, so that their deposits are protected by the better capitalised Federal Deposit Insurance Corporation.

Some industry observers stress that too much attention is being paid to the problems of FSLIC which, they say, are largely technical. They argue that, at the end of the day, the US Government would be forced to come to the aid of FSLIC if it could not meet its obligations.

Meanwhile, there are other analysts that complain that the media has spent too much time focusing attention on the 15 per cent of the US S & L industry which is insolvent. "The majority of the thrift industry is healthy and prospering. The two thirds of the industry with net worth above 3 per cent of liabilities earned over 85 basis points on assets in 1986," says Ryan, Beck & Co. a New Jersey investment bank which specialises in raising capital for the thrift industry.

William Hall

Top 20 US thrift institutions, by deposits ($m)

	Deposits 31/12/86	Net worth 31/12/86	Net worth as % of assets
Home Savings of America	21,774.8	1,574.6	5.67
Great Western Bank	18,130.5	1,348.9	4.92
American Savings & Loan Assn	16,977.8	552.1	1.63
California Fed. Savings & Loan Assn	15,455.8	1,067.8	5.20
Glendale Federal Savings & Loan Assn	12,700.3	857.0	4.91
Meritor Savings Bank	12,676.1	N.A.	N.A.
First Nationwide Bank	11,079.4	790.2	4.92
Goldome	11,016.2	299.4	2.04
Great American First Savings Bank	8,877.4	754.7	5.78
Home Fed. Savings & Loan of San Diego	8,562.0	N.A.	N.A.
World Savings	7,698.5	748.6	6.02
City Federal Savings Bank	6,998.6	357.0	3.33
Crossland Savings	6,876.5	823.5	8.16
Anchor Savings Bank	6,468.0	370.1	5.03
Dime Savings Bank of New York	6,464.3	582.3	6.96
Coast Savings & Loan Assn	5,931.1	699.2	7.19
Gibraltar Savings	5,727.0	558.8	4.93
Imperial Savings Assn	5,532.3	281.1	3.15
Columbia Savings & Loan Assn	5,192.6	N.A.	N.A.
Bowery Savings Bank	5,136.4	345.1	5.47

Source: American Banker

Commercial banks

Enter the super-regionals

THE 14,000 US commercial banks are facing probably the greatest upheaval in the history of their industry since the 1930s. Increased competition, combined with falling profits and deteriorating asset quality have contributed to a sense of unease about the health of the US banking industry.

The recently announced second quarter losses at Citicorp and Chase Manhattan—far and away the biggest quarterly losses at financil institutions ranging from BankAmerica and Mellon Bank to the Texas banks, have led to an unusually large amount of red ink being spilt over the US financial landscape.

Even outside the recognised problem areas it appears that US banks, overall, have had to accept greater loan risk in order to maintain earnings and loan volume.

However, the message coming out of the US banking industry is not uniformly gloomy. US regional banks, which have steered clear of Third World lending and exposure to the hard-hit US farm and energy sectors, are flourishing; and through a series of increasingly large mergers a new generation of "super-regional" banks is quickly emerging.

Wall Street has accorded several of these new regional banking empires, such as Suntrust Banks, First Union and PNC Financial, star status, with the result that their stock market capitalisations dwarf that of many of their better known money centre rivals. There is still plenty of money to be made in certain quarters of the US banking industry.

Meanwhile, although much has been made of the way the money centre banks' traditional large corporate customers have drastically reduced their reliance on direct bank lending, the big banks have been fighting back. The investment banking operations of banks such as J. P. Morgan, Bankers Trust and Citicorp, for example, are making substantial inroads into the traditional turf of the Wall Street investment banks; and when the banks are finally permitted to begin competing in lucrative areas, like municipal revenue bonds and mutual funds, they will be able o develop major new earnings streams.

The pressure for allowing even greater US bank participation in the US securities markets is building a head of steam, while the barriers to nationwide banking in the US are falling more rapidly than exected. Both are positive long-term developments for US banks.

Against this background, here is a birdseye view of the financial condition of the US banking industry, drawn largely from the recent congressional testimony of Mr William Seidman, the chairman of the Federal Deposit Insurance Corporation (FDIC) and Mr Manuel Johnson, vice-chairman of the Federal Reserve System.

- The net income of US banks fell by 1.4 per cent to \$17.8bn in 1986, and would have been considerably lower but for securities gains which accounted for about a quarter of total profits, according to the FDIC's new quarterly banking profile. While total loans grew by a relatively modest 7.6 per cent, to \$2,938bn, real estate loans expanded at a robust 17.2 per cent, and consumer loans increased by 8.6 per cent.

Commercial and industrial loans grew only 4 per cent, "reflecting softness in demand and heightened non-bank competition," says the FDIC. Return on US bank equity in 1986 averaged 8.75 per cent, and return on assets totalled 0.74 per cent. This comares with levels of 13 per cent and 1 per cent respectively, five years ago. Earnings are continuing under pressure in 1987.

- Unusually heavy loan loss provisions continue to hurt profits. Provisions rose by 23 per cent to \$21.7bn in 1986, of which \$16.3bn reflected loan charge-offs.

The ratio of loss reserves to non-performing assets stood at 50 per cent at the end of 1986, compared with 45 per cent a year early. Nevertheless, banks' non-performing assets continue to grow, and totalled \$57.5bn, or 1.96 per cent of assets, compared with \$51.1bn, or 1.87 per cent of assets, at the end of 1985.

- The steady deterioration in the quality of US bank assets is reflected in net charge-offs, which have risen from 0.56 per cent of loans in 1982 to 0.99 per cent in 1986. Mr Seidman says that, leaving aside the recognised problem areas, "it seems clear that the risk in the system has been increased by deteriorating loan portfolio quality." Limiting the losses that result from this increased risk will be necessary to insure banks' future profitability.
- After declining for many years, bank capital ratios have been substantially strengthened recently, and US banks now rank among the most strongly capitalised in the world.

Since 1981, the average primary capital ratio of the top 50 US bank holding companies has risen from 4.7 per cent to 7.1 per cent, which is well above the minimum guideline of 5.5 per cent. The aggregate primary capital of all US banks has risen by \$82bn since the end of 1981, when specific minimum capital ratios were first introduced by bank regulators, and now stands at \$211bn.

- The off-balance sheet business of US banks continues to rise rapidly. At the end of 1986, standby letters of credit issued by insured commercial banks amounted to \$170bn, foreign exchange commitments came to \$893bn, loan commitments were \$571bn, and interest rate and cross currency swaps totalled \$376bn, according to the Federal Reserve.

This development is forcing bank regulators to look at a new set of capital ratios, adjusted for off-balance sheet risks; and, while the numbers appear staggering, the Federal Reserve notes that, after adjusting for off-balance sheet items, the primary capital ratios of the top 10 banking groups climbed from 4 per cent to 6.2 per cent between 1981 and end 1986.

- The level of US bank failures and the number of problem banks continues to set new records. By mid-May, 78 US banks had failed, of which half came from Texas and Oklahoma. Regulators expect the number to top 200 by the year end. This compares with 138 in 1986, and seven in 1981. At the end of the first quarter there were 1,531 banks on the Federal Deposit Insurance Corporation's problem list with assets of \$237bn. This compares with 1,140 at the end of 1985, and 223 in 181 with assets of \$42.6bn. Some 600 of the current problem list are agricultural banks, and 150 are energy banks. Eighty-five per cent of all problem banks are located west of the Mississippi.
- The FDIC says that it believes that the level of bank failures and problem banks may be close to peaking. There are indications that the worst of the problems in the agricultural sector may be over; and the energy economy, which has taken a heavy toll of the former high-flying Texas banks, seems to have bottomed out. Regulators are still concerned about banks running into further problems in real estate, and are worried about the relative increase in the indebtedness of the personal and business sectors.

William Hall

The top 20 US banks—first quarter 1987 ($m)

	Assets (\$bn)	1987 net income	% change on year	1987 non-performing loans	As % of total loans	Primary capital ratio	Loan loss reserve as % of total loans	Number of employees
Citicorp	197.4	264.0	− 2	6,438.00	5.10	7.05	1.39	88,500
Bankamerica Corp	99.0	67.0	+ 6.3	5,486.00	7.90	7.38	3.16	68,000
Chase Manhattan	82.2	104.0	−28	4,600.00	4.70	6.88	1.69	47,000
J. P. Morgan	80.3	226.4	− 3.2	1,883.00	5.20	8.19	2.64	14,518
Manufacturers Hanover	75.8	81.0	−20.7	3,330.00	6.02	7.28	1.84	29,697
Security Pacific	64.0	98.6	+12	1,770.00	4.01	6.53	1.72	35,000
Chemical New York†	61.0	86.2	−16	2,390.00	6.16	7.26	1.74	20,000
Bankers Trust	57.9	124.2	+ 7	1,300.00	5.10	6.87	2.26	11,067
First Interstate	52.1	83.5	+ 5.7	*1,765.00	5.21	6.93	1.60	40,527
Wells Fargo	44.0	78.3	+52	1,400.00	4.00	8.07	2.05	21,500
First Chicago	40.1	85.0	+ 3	1,341.00	5.40	8.28	2.40	13,200
Mellon Bank	34.4	(59.8)	N.M.	1,452.00	6.51	7.23	2.58	19,447
Continental Illinois	32.2	43.1	+ 7.5	908.00	4.64	7.62	2.35	9,477
Bank of Boston	32.0	70.8	+35	*886.70	*3.90	7.40	1.76	20,891
First Bank System	28.4	57.4	+23.1	*637.00	*2.24	7.10	2.52	9,970
PNC Financial	27.1	80.9	+26	404.80	2.32	7.78	1.74	11,574
NCNB	26.5	53.9	+ 1	*275.80	1.73	6.56	1.50	12.107
Suntrust Banks	25.8	70.2	+ 9.7	*200.90	1.17	7.00	1.55	19,700
Bank of New England‡	25.8	60.0	+23	364.00	1.87	7.38	1.28	14,827
First Union	25.7	78.5	+22	*180.68	1.33	7.97	1.75	20,000

* Non-performing assets. † As of May 1, Chemical Bank merged with Texas Commerce Bancshares. ‡ As of April 22, Bank of New England merged with Conifer Group. § Approximate figure.

Leading managers of underwritten offerings ($m)

	1985 Amount	Number of issues	1986 Amount	Number of Issues
Salomon Brothers	30,898.2	293	51,028.3	450
First Boston	21,572.7	274	44,096.1	406
Morgan Stanley	10,050.1	104	31,819.6	275
Drexel Burnham Lambert	13,336.7	171	30,732.2	266
Merrill Lynch Capital markets	15,375.9	188	30,537.7	313
Goldman Sachs	16,365.1	145	29,456.4	267
Shearson Lehman Brothers	9,609.5	164	17,512.6	281
Kidder, Peabody	3,829.2	83	10,153.5	186
Paine Webber	2,920.5	74	5,048.9	125
Bear, Stearns	1,320.4	30	4,087.5	85
Prudential-Bache Securities	1,346.9	41	4,073.4	77
Smith Barney, Harris Upham	1,639.0	37	3,465.4	64
Dean Witter Reynolds	1,417.5	33	2,419.5	48
E.F. Hutton	955.6	24	2,341.1	43
Lazard Freres	740.6	11	2,198.7	15
Dillon, Read	1,352.8	12	2,173.5	26
Donaldson, Lufkin & Jenrette	292.9	15	1,499.4	40
Alex. Brown & Sons	449.2	21	1,334.2	47
Allen	179.5	8	1,296.7	11
L.F. Rothschild, Unterberg, Towbin	790.1	28	1,271.0	33

Source: IDD Information Services

Investment banks

Taking risks the British way

FIRST BOSTON booked \$100m of revenues for helping Campeau win its bitter \$3.5bn takeover battle for Allied Stores earlier this year. If the investment bank's rewards appeared great, so were the risks. It laid \$865m, of its own money, on the line for almost five months as bridge finance until it could refinance the Canadian real estate developer's borrowings in the junk bond market.

The deal was the most spectacular example to date of the way competitive pressures have driven Wall Street investment banks to put their own money at risk in order to win juicy slices of the mergers and acquisitions business. The days of growing rich on fee income alone are dwindling.

The banks say the use of their own capital is the same as the traditional practice of British merchant banks of taking equity stakes in companies they nurture. But, unlike their British counterparts, the investments are likely to be short term and designed solely to facilitate the overall deal.

It seems highly improbable, for example, that Merrill Lynch and Morgan Stanley will remain substantial shareholders in, respectively, Borg Warner and Burlington Industries, two industrial companies they are taking private to thwart hostile takeovers.

While the investment banks are confident in public about the merits of this new line of business, the credit ratings agencies are far from sanguine. Standard & Poors recently downgraded Merrill Lynch's debt, for example, citing a number of adverse factors, including the use of its own capital in deals.

Mr Courtney Jones, Merrill Lynch's chief financial officer, said the firm was "very disappointed" by the downgrading. "We agree there are risks" inherent in the activity, but the company is "instituting more advanced controls."

Success brought these headaches for investment banks. With mergers and acquisitions deals totalling almost \$180bn a year in 1985 and 1986, a small circle of top firms booked princely fees. Less fortunate firms, prompted by declining profits in other areas, such as underwriting, have been heavily committing resources to break into the big time—just as the frenzied pace of the business has been cooling off.

"The M and A business is going to be dominated by the substantial sums of capital at firms like Pru-Bache, but not at Morgan Grenfell," said Mr Randall Caudill, as he explained recently why he is moving from the head of US merger and acquisitions at the British merchant bank to its American competitor. Pru-Bache has earmarked \$500m for the business.

In addition to merchant banking, the dramatic increase in foreign activities, "bought deals," shelf registrations and other capital intensive activities, have forced a number of Wall Street firms to seek outside shareholders.

Over the past year, for example, Goldman Sachs remained a partnership but sold a 12.5 per cent stake for \$500m to Sumitomo Bank of Japan; American Express sold a 13 per cent stake in its Shearson Lehman subsidiary to Nippon Life of Japan at 2.8 times book value, in an exercise which took Shearson public; and General Electric bought 80 per cent of Kidder Peabody.

Overall, the securities industry's capital soared to \$35bn at the end of last year, from just over \$20bn a year earlier and a paltry \$8bn five years ago, according to figures from the Securities Industry Association. About 60 per cent of the industry's capital is concentrated in the top 10 firms, compared with only 35 per cent in 1973.

"From a financial perspective, however, the consequent rapid expansion of the capital base is pressuring profitability rations," points out Mr Samuel Liss, an analyst with Salomon Brothers.

Firms have scrambled to put the money to work, but with mixed results. Some investment banks have coped better than others with the upsurge of business into new markets abroad and new products at home. One of the most revealing trends has been the growth in numbers of employees which, for many firms, has been better than 30 per cent a year for the past few years.

Salomon Brothers admitted that its 40 per cent drop in fourth quarter profits last year was due largely to its pell-mell expansion during the year in Tokyo and London. On the other hand, Morgan Stanley said its record profits were due to planned growth in its activities.

The speed with which these conditions can change carries a double edged effect. On one hand, Salomon said recently that the expansion was beginning to pay off, and during the first quarter its foreign business grew by about 55 per cent while domestic volume was flat. Conversely, Morgan Stanley's cost grew far faster than profits in the same period.

The question of management expertise hangs heavily over Wall Street. There is a widespread feeling among observers that inadequate supervision by management is to blame for various of the industry's ills. These include some notable trading losses, such as Merrill Lynch's \$265m hit on mortgage backed securities, unplanned and as yet low-profit expansion, and some of the insider trading abuses which might have been prevented or at least detected earlier by more rigorous controls.

Significantly, a number of firms are beefing up management structures and making more formal the process of risk assessment and capital allocation. Salomon Brothers, for example, has added its first new layer of senior management in 20 years; Merrill Lynch has hired top outsiders, such as Mr Eugene Rotberg, former treasurer of the World Bank; and—most dramatically—General Electric recently replaced Kidder's top executives, some by non-Wall Street executives.

Roderick Oram

Mergers and leveraged buy-outs

Accountants await mirror reflections by Treasury

ALL OF the props had been knocked away by the year-end. As the last few billion dollar deals—Allied Stores, Revco, Reliance Electric, Fruehauf and ITT telecommunications—squeaked through with only hours to spare before the December 31 deadline, it seemed as if one of the most dramatic episodes of corporate restructuring in US financial history had reached its spectacular climax.

The Tax Reform Act, which came into effect on New Year's Day, eliminated the General Utilities doctrine which had allowed predator companies to write up the value of their acquired assets, and thereby accelerate their depreciation. This pulled the plug on the most powerful fiscal motor which had kept the merger business spinning.

To make matters worse, the tax reform put into serious jeopardy the widespread use of so-called "mirror companies." These mirrors were used to split the assets of acquired corporations into essentially fictitious subsidiaries before they were disposed of, making it possible to mitigate the capital gains tax liability that normally arises when corporate assets are disposed above their book value.

while the General Utilities doctrine has now definitely gone, the wording of the TRA on "mirrors" was left deliberately ambiguous, according to Mr Eli Fink, a partner at accountants Deloitte Haskins & Sells, because of differences of opinion between the House of Representatives and the Senate on whether the tax laws should discourage trading in corporate assets.

As a result, accountants and financial officers are now awaiting an explanatory ruling from the Treasury. In the meantime, Mr Fink says that banks are applying much more conservative tax calculations than in the past to their financing of mergers and buyouts.

Tax reform would not, of course, have been enough to stop the rush of mergers, buyouts and corporate raids. But when, in January, large-scale merger activity plummeted to only seven deals worth of over $100m, compared with 31 such deals a year earlier, the market was all too willing to jump to the obvious conclusion: merger mania was over.

For tax reform was only the last straw. From the summer of 1986 onwards, the merger business had suffered a series of potentially stunning blows. The ever-widening ramifications of the insider trading scandal seemed certain to undermine the power of the two key financial communities which had become the final arbiters of many a corporate battle—the junk bond investors, based on the Drexel Burnham Lambert office in Beverly Hills; and the Wall Street "risk arbitrageurs," a group originally dominated by none other than Mr Ivan Boesky.

Meanwhile, state legislators, under the pressure of terrified corporate managements, were tightening some of the legal restrictions on tender offers, stock accumulation and greenmail payments, with a view to making aggressive merger activity more difficult.

Most fundamentally and crucially, by early January stock market prices had nearly doubled in two years. On January 8, when the Dow Jones Industrial Average broke through 2000 for the first time in history, the stock market's price-earnings multiple had risen to 16.

With stock prices at this lofty level, it was becoming harder to believe in the gross undervaluation of corporate assets on Wall Street that provided the ultimate economic rationale for the merger boom. Looking back on January's lull in deal-making activity, it is hard to contradict any of these arguments. Yet, as so often happens in the financial markets, a set of clearly understood premises has led to some entirely unexpected conclusions.

Despite the slow start in January, the deal-making fever in mergers, corporate raids and leveraged buyouts, has shown no sign of cooling off. There were 723 mergers and buy-outs, with a combined value of $104bn, announced among publicly quoted companies in the first quarter of 1987, compared with 381 deals worth $86bn in the same period of 1986, according to figures compiled by IDD information services.

The number of billion dollar transactions increased from 10 in the first quarter of 1986 and 28 in 1986 as a whole, to 20 in the three months from January to March. There has been no diminution in the rate of merger and acquisition activity, partly because Wall Street has been employing all its ingenuity to see that the deal-making continues unabated, and partly because the financial and economic fundamentals have continued to play into the merger-makers' hands.

The confidence and flexibility of the junk bond market, which has provided the financing for the vast majority of takeovers and buyouts, may have suffered in the wake of the insider trading scandal. But Wall Street has come up with new, and ever more spectacular, methods of lining up the funds required. A "bridge financing" from an investment bank, is today a standard feature of takeover and buy-out announcements.

For the investment banks, the risks involved in making these arrangements are considerable. In the biggest such deal to date, Shearson Lehman's offer to lend AFG Industries $1.25bn in its abortive bid for GenCorp, the bank was putting 44 per cent of its capital potentially at risk. But for the acquiring company, the speed and secrecy of a bank line is arguably preferable to the rigmarole which used to be required to get the celebrated "highly confident" letter from Drexel Burnham Lambert which testified to the junk bond market's willingness to finance the transaction in question.

The relative quiessence of the arbitrageurs has also changed the rules of the game somewhat. While the weakening of the arbitrage community has made it harder for individual raiders to put companies "in play" simply by hinting at their intention to start buying stock, it has also arguably made it easier and cheaper for skilful operators to accumulate large stakes in target companies, with little initial effect on the share price—as evidenced, for example, by the 14 per cent stake in Allegis built up by Coniston Partners in May.

Legal and institutional changes have also had mixed effects. Greenmail may have been more or less ruled out as a takeover defence, in practice if not yet in law, by the indignant opposition of shareholder groups and politicians alike. But as part of the same process, corporate restructurings designed to "enhance shareholder values," even at the cost of enormous debt accumulations, have acquired a new aura of respectability.

Groups like the Council of Institutional Investors, a body that represents large public sector pension fund managers, have been in the forefront of attacks on greenmail, but they have focused their criticisms only on preferential treatment accorded corporate raiders, when their shares are repurchased in a greenmail transaction.

Far from denouncing the whole principle of managements using debt-financed repurchases to entrench themselves against corporate raiders, the institutions have called for repurchase offers to be extended so that all shareholders were given the opportunity to sell back their stock. Partly as a result, financial restructurings of an audacity which would have scarcely conceivable even a year ago, have become the latest fad on Wall Street.

The culmination of this trend occurred in late May, when Harcourt Brace Javinovich and Allegis announced two enormous recapitalisations within a few days of one another. Although these plans were called recapitalisations, they actually committed the companies to borrowing billions of dollars — well in excess of their net worth — through bridging loans and junk bond issues, and then repaying essentially the whole of their equity capital to investors through special dividends.

The purpose of the plans certainly appeared to have less to do with any tidying up of balance sheets than with the desire to thwart takeover bids from Mr Robert Maxwell and Coniston Partners respectively. Mr Maxwell's legal challenge to this ploy could turn into one of the more fascinating of Wall Street's many current court battles. In the end, all of the institutional, fiscal and legal crosscurrents may have had a zero net effect on the number of takeovers and buyouts.

The most important determinants of merger activity have been, as ever, in the financial and economic environment. While the stock market's stratospheric level may have discouraged some merger-makers interested in acquiring companies whose industrial assets were undervalued by Wall Street, it was never the gap between physical replacement costs and financial values that provided the real motive force for the merger movement.

The key financial considerations in most recent US mergers and leveraged buy outs has not been the bargain price of the target company's industrial assets, but rather the money that could be raised by selling these assets as a going concern to other financial operators — plus the cost of financing the assets during the interim period while a buyer was sought.

In this context, what really matters to the merger-maker is not the gap between a company's market value and its replacement value, but the gap between the market value of the whole company, and the potential market value of its component parts. The more the stockmarket rises, the higher the prices which these component parts can find. Of course, if the market were to go into a prolonged decline or interest rates were to rise sharply, many of the highly-leveraged deals which depend on the disposal of corporate assets at ever-higher prices would quicky unravel.

However, with interest rates falling and no end to the stockmarket's ascent apparently in sight, it is hardly surprising that merger mania continues — or that the few bears left on Wall Street see the unabated dealmaking frenzy as one of the most alarming portents for the year ahead.

Anatole Kaletsky

Mr Robert Maxwell: a fascinating legal battle?

Major Leveraged Buyouts of 1986-87

Company	Price ($m)	Status
Borg Warner	4,230.0	Pending
Safeway Stores	4,198.0	Completed
Owens-Illinois	3,640.0	Pending
Lear Siegler	2,100.0	Completed
Supermarkets General	1,800.0	Pending
National Gypsum	1,640.0	Completed
Exxon's Reliance Electric Div	1,350.0	Completed
Beatrice	1,250.0	Completed
Beatrice's Playtex operations	1,250.0	Completed
Revco D.S.	1,227.0	Completed
Heritage Communications	835.0	Pending
Union Carbide's Home & Auto Products	800.0	Completed
Uniroyal's chemical operations	760.0	Completed
Fruehauf	722.0	Completed
Metromedia's outdoor advertising	710.0	Completed
Amsted Industries	861.0	Completed
Rockefeller Broadcasting Group	625.0	Completed
Wometco	625.0	Completed
Joy Manufacturing	621.0	Pending
Leaseway Transportation	602.0	Completed

1986-87 mergers & acquisitions valued over $1bn

Target	Bidder	Value ($bn)	Status
RCA	General Electric	6.40	Completed
Sperry	Burroughs	4.39	Completed
ABC	Capital Cities	3.50	Completed
Midcon	Occidental Petroleum	3.00	Completed
Associated Dry Goods	May Dept. Stores	2.47	Completed
Comsat	Contel	2.42	Pending
Piedmont	Usair	1.59	Pending
Union Carbide's Battery Div.	Ralston Purina	1.42	Completed
JTL Corp.	Coca-Cola	1.40	Completed
Tenneco's Life Insurance Div.	ICH	1.34	Completed
Fleet Financial	Norstar Bancorp	1.30	Pending
Metromedia's Cellular & Paging	Southwestern Bell	1.21	Completed
Crocker National	Wells Fargo	1.08	Completed
Overnight Transportation Co	Union Pacific	1.20	Pending
Texas Commerce Bancshares	Chemical Bank	1.19	Completed
AMC	Chrysler	1.18	Pending
Sanders Associates	Lockheed	1.18	Completed
Collins & Aikman	Wickes	1.16	Completed
Rainier Bancorporation	Security Pacific	1.15	Pending
Hammermill Paper	International Paper	1.08	Completed
Ex-Cell-O	Textron	1.05	Completed
Unisys' Aircraft Business	Honeywell	1.03	Completed
BCI Holding's Bottling Operations	Coca-Cola	1.00	Completed

Insurance

Falling rates offer a hint of over-capacity

THEY SAY the US insurance shortage is over. The new problem is not too little but too much.

This may be news to the ordinary Manhattan pub-owner or the operator of a Vermont ski resort, who are still hard pressed to get any insurance cover at all. But outside heavyweight commercial liability risks, the bulk of America is renewing its insurance policies without the staggering increase in rates or decline in cover that have been a feature since the second half of 1984.

There are other signs of temporary equilibrium. The mud-slinging between the insurance industry and the legal profession, over who was responsible for the shortage of insurance, has turned into a sullen truce. Insurers still say they are being crippled by multi-million dollar jury awards, particularly in product liability cases, and have been forced to cut cover and raise rates.

Lawyers say the insurers are reaping windfall profits. About half the states in the Union have tinkered with their insurance regulations, but the calls for wholesale rate-capping or "tort reform" have died down.

Last year, the property/casualty industry reported operating profits of $5.6bn, after losing exactly the same amount in 1985. Earned premiums were up over 23 per cent. But, far from anticipating sharply rising earnings and dividends at the insurers, the stock market has allowed their share prices to drift since they touched a peak in March 1986.

As a leading indicator, the stock market is haunted by fears that the insurers will once again cut their own throats (and profits) in a ruinous price war. Already, the first signs of insurance over-capacity are appearing in flat or falling rates in commercial property. "We're hearing of a relaxation of standards and prices," says Mr David Seifer, a stock analyst at First Boston, who has just recommended selling stocks heavily weighted towards commercial property.

The US insurance industry this century has tended to follow a predictable, if hair-raising, cycle. When premiums and profits are high, as in 1978 or last year, the business attracts new entrants. The new capital causes a surplus of insurance, and rates fall. Eventually, the weakest insurers go out of business, cover becomes scarce and premiums climb.

However, the most recent cycle has been quite out of the ordinary. The main difference this time was so-called "cash-flow" underwriting at the beginning of the 1980s: insurers were under-pricing policies, particularly liability lines where it can take years before losses crystallise, to invest the premiums at historically high interest rates.

Unfortunately for the industry, interest rates fell just as the liability chickens came home to roost. The insurers plunged to a $4bn operating loss in 1984, when the industry's combined ratio—the key relationship of claims and expense to premiums—reached its all-time worst at 118. Balance sheets were in bad shape. The industry had to retrench drastically, and the result was what rapidly became known as the insurance crisis.

The key question is whether the recovery will last long enough to allow the industry to rebuild balance-sheets damaged in the down cycle. While many analysts and industry members are still hoping that rates will not peak until next year, there are some gloomy signs:

- In the past three years, the industry has sucked in no less than $16bn in capital. With a return on equity last year of 13 per cent, property/casualty insurance is once again an attractive alternative to manufacturing for owners of capital.
- The jacking up of rates since 1984 has driven whole sectors of the economy out of reach of the industry. The insurers are still most unwilling to underwrite medical malpractice or pollution, toxic waste and some chemical cover. Seagram, the large North American drinks company, has just announced that it is endowing a scheme for pub and liquor-store owners to insure themselves against liability for drunk-driving customers.

Mr Edgar Bronfman, president of Seagram, remembers talking to a restaurant owner in Denver whose premium for liquor-law liability rose tenfold in 1984. Such self-insurance pools now account for about a third of the market, leaving traditional insurers to fight more keenly for the remainder, as evidenced in commercial property.

Optimists claim that the very severity of the trough of 1984-85, and changes in the operating environment, should keep the insurers from suicidal rate-cutting for a while yet.

- Good weather and very high premium rates have led to unsustainably attractive underwriting profits in commercial property; combined ratios were down in the '80s. But property is under 10 per cent of total premium volume, and the rest is still unprofitable before investment income is added in. In addition, insurers can see quickly if property returns are inadequate—and duly raise rates—because claims come in as soon as the thunderstorm or hurricane is past.
- Liability is the opposite. Because the extent of losses is still not known, insurers are still lifting premium rates on many long-tail lines. A great deal of the capital raised has probably gone to rebuild loss reserves rather than support an aggressive push for new business.

Meanwhile, reinsurers and the Lloyd's market are chary of US liability business and are cramping the primary market. Lower interest rates may quell the dangerous passion for cash-flow underwriting in the long-tail lines.

James Buchan

New funds invested in property/casualty insurers

Value adjusted to 1974 dollars using CPIU

	$bn
1974	0.87
1975	0.88
1976	0.82
1977	0.81
1978	0.49
1979	0.38
1980	0.44
1981	0.34
1982	0.76
1983	0.52
1984	1.29
1985	3.54
1986	2.53

Source: Insurance Services Office Inc.

Property/casualty insurance industry

	Combined ratio after policy holder dividends	Operating income ($bn)
1983	112.0	2.3
1984	117.9	(4.0)
1985	116.5	(5.6)
1986	108.1	5.6

Insider trading

Clouds hang over the best houses

IT IS now a year since the insider-trading scandal burst over Wall Street, and the shock waves are still reverberating through the securities industry.

Ten people have pleaded guilty to insider trading. Four have gone to gaol and will soon be joined by others including, almost certainly, the lynchpin of the investigation, Mr Ivan Boesky.

It is Wall Street's sleaziest scandal for 50 years. Some of the best houses on the street are accused of harbouring senior bankers who routinely traded on secret information derived from confidential client relationships. Other firms wait uneasily for the next series of revelations to surface in the press or in spectacular announcements from the prosecution.

Meanwhile, at legal practices scattered across Manhattan, tense negotiations proceed between a tight-knit group of highly paid lawyers. Some are acting for the Government. The others are former prosecutors or Securities Exchange Commission officials now in private practice, defending the bankers denounced by Mr Boesky and other witnesses.

Wall Street's bad year began on May 12, 1986, when Dennis Levine, who worked in mergers and acquisitions at Drexel Burnham Lambert, was arrested on charges that he had reaped more than $12m in illegal profits from insider trading. It was the first time for years that the SEC had a strong case for a crime which is inordinately hard to prove.

Within 10 days, Mr Levine set the pattern which has made the investigation possible: he informed on his colleagues. The prosecution was able quickly to vacuum up the subordinate members of his insider-trading ring: men such as Ira Sokolow, at Shearson Lehman, or David Brown, a junior banker at Goldman Sachs.

But sometime in June, Levine really earned his keep. He told the SEC investigators and Mr Charles Carberry, the Assistant US Attorney in Manhattan, that he had passed on information to Boesky, a colourful trader who made an extravagant living from speculating in takeover stocks or risk arbitrage. Mr Boesky was at the centre of the takeover wave sweeping America, with unequalled contacts throughout Wall Street. He was a prize.

It is still hard to know the strength of the Levine evidence against Boesky, who had survived years of suspicion and countless probes from the SEC and the New York Stock Exchange. But he gave in. At the beginning of September, Mr Boesky agreed to an extraordinary deal with the SEC and Mr Rudolph Giuliani, the US Attorney. In exchange for a recommendation of leniency, Boesky agreed to plead guilty to a charge of filing false documents and to pay over no less than $100m, or the equivalent—as Mr R Giuliani later put it—of the SEC's entire annual budget.

Above all, Boesky agreed to co-operate, or rather, to do the prosecution's job for it. He taped conversations with bankers. He denounced Mr Martin Siegel, a senior banker at Drexel Burnham who had sold him inside information while at Kidder Peabody; he led the prosecution to Boyd Jeffries, a Los Angeles broker, who had helped "park" stock for him to avoid disclosure; and he set the investigation running after a large, powerful and elusive prize, Drexel Burnham itself.

Since then, the investigation has ramified into two main branches. Siegel pleaded guilty on February 13, after confessing to running his own insider-trading ring at Kidder Peabody after falling out with Boesky. He denounced two former arbitrageurs at Kidder (Mr Timothy Tabor and Mr Richard Wigton) and the partner in charge of arbitrage at Goldman Sachs, Mr Robert Freeman.

The case of the three arbitrageurs has brought the prosecution into new and tricky territory. All have pleaded not guilty, and Mr Freeman has the powerful support of Goldman Sachs. The three were arrested in dramatic circumstances on February 11 and 12, but Mr Giuliani has yet to bring them to trial. Amid growing signs of overload, the prosecution withdrew its indictment last month, promising an expanded set of charges later.

The setback to the Kidder/Goldman investigation is probably only temporary. But few are willing to predict the outcome of a second, and much more ambitious, probe into Drexel Burnham, the highly profitable Wall Street firm which has revolutioned US investment banking through its pioneering "junk bonds."

Mr Gary Lynch, head of enforcement at the SEC, and Mr Giuliani are now examining whether the relationship between Drexel Burnham, various corporate raiders, and arbitrageurs such as Mr Boesky, amounted to an illegal conspiracy to destabilise companies going far beyond mere insider trading. Drexel Burnham vehemently denies wrongdoing and has launched a publicity campaign to rehabilitate its image. As investigators sift through mountains of paper sequestered from Drexel Burnham, they must be wondering whether they will still be in May 1988.

James Buchan